louisville arena authority

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Special Board of Directors Meeting
January 16, 2007
9:00 a.m. EST –
Kentucky International Convention Center
Louisville, KY

Directors in Attendance: Mr. Larry Bisig, Mr. Neville Blakemore, Mr. Todd Blue, Zev Buffman, Ms. Reba Doutrick, Rick Blackwell, Mr. James Patterson (via telephone), Mr. Tom Schifano, Ms. Lindy Street, William E. Summers V, Mr. Dan Ulmer, ,Larry Hayes and Chairman Host.

Directors Absent: Junior Bridgeman, Ms. Alice Houston, Ms. Cissy Musselman, Mr. Robert Woolery,

Guests and Others: Harold Workman - Executive Director; Mark Sommer, General Counsel; and Ms. Helen Thompson Asst. General Counsel

Issues Discussed:

Opening Remarks and Welcome – Chairman Host

Chairman Host said the group that is being recommended by the Bond Committee to the full Arena Authority is Goldman Sachs who will make a presentation to the Authority Board. Mr. Host asked Mr. Carey to take a minute and introduce the members of his team that are here.

Mr. Carey said, "good morning Mr. Chairman, members of the Authority. On behalf of Goldman Sachs and our co-underwriters, it's a pleasure to have the opportunity to present to the Board on this, what is a very exciting partnership transaction. What I'd like to do is introduce the people of our team that are here and go into some credentials, our proposed plan of finance and some other housekeeping items for you to review our proposal as the lead underwriter.

My name is Greg Carey. I'm the managing director of the sports facility finance group. I've been doing this for 24 years and worked on a project with Mr. Buffman in California. To my left is Derrick McNeal. Derrick is with the firm of Seibert, Brandford, Shank & Co. Seibert is also acting as co-senior manager for Goldman Sachs. They've just announced an $11 million deal in Dallas for the Dallas Area Rapid Transit. We have a great working relationship with them. To Derrick's left is, is Thomas Rousakis, Tom is one of our point people for Kentucky and works in the infrastructure group with me at Goldman Sachs and has about 12 years of experience. Next is Arthur Miller. Arthur joined Goldman Sachs in the early '80s from the old Nixon & Mitchell law firm which my father actually helped found. But Arthur has always been someone we bring out in very interesting transactions; understands the tax code very well and can help produce the lowest possible cost for this project using the tax codes to your benefit. It's a great pleasure to have Arthur as part of our team. To Arthur's left is Zack Effron. Zack is the one that actually does all the work. He's a great member of the team. Also in the audience we have three members of the National City Investment Group, Mary Griffith, Matt Hall and Jack Sweeney.

We're proposing a group, and we'll get into this in a little more detail, that can help produce the lowest cost for this project and the members that are sitting at the table and the other members of this group can fill the requirements and desires of the Authority. Members of our team have over 25 years experience financing such facilities in the country. Every one of these projects is different and they require a unique concentration of taking what is available, in those localities. One of the most recent transactions we worked on was the financing for the New York Yankees Stadium. It was the largest sports financing ever at 973 million. The deal was financed mostly on a tax-exempt basis. Where most private sports deals have to be done on a taxable basis, we came up with a brand new concept that enabled the Yankees to fund a very unique project. The next two transactions, are the teams fighting for the AFC Championship next week in Indianapolis, the New England Patriots and the Indianapolis Colts. We were able to develop a brand new structure for the Patriots that enabled them to do a private financing with corporate-type credit terms with very few restrictions. And it's ideas like that that are going to help this project reach its lowest cost. We also just financed the initial phase for the $400 million Indianapolis Colts' Stadium. This proposed transaction that we put together really is going to serve as a poster child around the country, the state, the city, etc. With that, I'd like to turn it over to Tom Rousakis for an overview of ideas in this proposal.

Mr. Rousakis thanked the Authority. What I present on page three is our proposed structure for the Louisville Arena Fund Bond Issue. We have the benefit of a unique partnership between the state, the city, and the Arena. And what we hope to do is instead of issuing bond securities for each of these revenue sources, combine the three – Arena revenues, the Metro Louisville guaranty, and state tax increments into one distinct security structure for bondholders, cross-collateralize those revenue streams which would, we believe creates a stronger bond security for investors, for bond insurers, and will ultimately lead to a more successful financing for the Authority.

On the next page, we'll show you what that means in real numbers compared to the numbers that were presented to the Metro Louisville Council in July 2006. The original transaction that was contemplated by a combination of tax-exempt and taxable bonds for a total proceeds in the amount of $346 million. What we're looking at under the current market since January 2007, is our proposed structure that is $339 million of proceeds.

What is driving some of those changes? Let me just briefly explain to you, that 4.95% interest rate is going to result in net debt service of $573 million that the Authority will have to pay from those three revenue sources I described. What's driving that is market conditions and the fact that when those original numbers were put together, they were somewhat conservative on their estimates, and now as we're getting closer and we're partnered with the Authority, we can refine those numbers and take advantage of the low-market conditions we're under right now. The other point is that we, under our current tax analysis, do not expect to have to issue taxable bonds and that has to do with the way we're treating some of the contributions to this project and as a result of Arthur Miller's tax analysis up to this point, we believe we can eliminate the taxable bond component of this. Taxable bonds are over 100 basis points higher than tax-exempt bonds, so we're saving money in that respect. One of the other features of this proposed financing is that we're not issuing what's called zero-coupon bonds. We're issuing current interest bonds and we've structured it in that way which saves upwards of 50 basis points in interest rate. What that does is a higher assumption for capitalized interest, so we are capitalizing interest on those bonds for a three-year period until construction is complete on this project.

Lastly we end up with a lower par amount of bonds rather than deposit the full amount the Authority needs on day one, we are assuming that we're going to deposit a small amount, earn interest over time so that the Authority does not have to issue as many bonds, but you'll still have enough proceeds for the project.

On page five, I want to point out some of the features which we have already alluded to. The structure we are proposing today would save $116 million from the structure you saw about a half a year ago in the current market. What this bond issue will do is leverage over a billion dollars of available revenue for $573 million of net debt service, which we believe will be an attractive feature for the bond markets and those three revenues are the Arena Authority revenue, the Metro Louisville payments, and the state contribution. To explain what's in the all in-true interest cost of 4.95%, is all of the expenses – underwriters' fees, legal counsel, bond insurance – so that the true cost to the Authority at the end of the day, the proceeds for that project relative to what you're paying in debt service is 4.95%. And lastly, what's also included in this transaction is nearly $30 million debt service reserve fund that we will be funded out of bond proceeds and will be available to cover shortfalls over time. Now I'd like to hand it over to Greg Carey.

Mr. Carey said one of the things that is very unique about project financing is we have two very big variables that you have to contend with. One is the cost of building the project and the second is the interest rates, or what you have to pay for in order to produce and use the revenue streams. Our job is to help you get the lowest possible cost, so if you do vote to approve the Goldman Sachs team, we would start today to try to finalize the agreements such that we have a pledge of revenue and, and in essence, lock in the interest rate for you and buy the bonds early. You would still not be issuing debt until the Fall when the monies are needed, but, under today's math, this deal works today. If interest rates go up a hundred basis points, that puts a lot of pressure on the revenue streams. When you do projects like this, you play defense, not offense. And what we're proposing is to work 24 hours a day to put this transaction together, even though it's early, in order to lock this in. One very interesting thing about the product that Goldman Sachs has is what we call an accelerated bond purchase agreement. We're not using derivatives; we're not using swaps. We are buying a future cash flow that would be a Goldman Sachs commitment. We will go out and meet with the bond insurers next week, putting everything together early. That is something that's going to take two, three months to put together.

In order to effect this transaction, we want to make sure we provide the widest possible distribution, the widest possible use of underwriters that are available to us. Goldman Sachs has proposed a group of underwriters that will help sell the bonds when the bonds are ultimately sold to the market in the Fall. Goldman Sachs would be the lead in the transaction. We have both high-network capabilities and really cover the institutional market. We propose having Nat City's Investments as a regional co-manager that will also have direct retail and cover the second-tier institutions. We have proposed three MWBE firms; Ramirez & Company, which is a minority firm; MR Beal & Company, which is a minority firm; and Seibert, Brandford, Shank & Co. who Derrick is with, which is both a women and minority-owned firm. These are all firms that are active, they will have full underwriting commitments to this transaction and actually sell bonds in the marketplace, they're a pleasure to have as part of our group. We think this gives you the strongest team possible to get the lowest rates. We would also propose creating a selling group of Kentucky firms to ensure the widest distribution of your bonds. The more people we sell bonds to, the lower rate you get and we will put that together in consultation with the state, the city, and the Authority when we get closer to marketing time.

Goldman Sachs, as you may have read it in the paper last month, announced record earnings and we're very good at what we do in the marketplace. But after a couple of sessions with your Finance Committee and Mr. Host, Goldman Sachs has proposed doing this transaction at an all-in compensation of $4.85 per bond. That includes expenses for counsel and the like. We are proposing $4.85 a bond, that would be guaranteed in an all-in compensation, so, we're very happy to offer you this transaction. This is a unique public-private partnership that Goldman Sachs and team really want to be a part of and we're willing to lower our fees in order to propose for this business. Mr. Chairman, that is our presentation. I'd be happy to answer any questions that you may have.

Mr. Host thanked Mr. Carey. I want to make a few comments and observations and then open it up for questions. First of all, I want to make sure everybody here understands the accelerated bond purchase program. This, in my judgment, was the differentiation, as I think Vice Chairman Hayes will agree, between them and their competition. And the accelerated bond purchase program guarantees these bonds. It means it sets them in place at today's marketplace. They guarantee these bonds – that means they've bought them and they begin to sell them in September when we need the money. We don't want to take it earlier than September because we can only have three years of capitalized interest, which gets us through the end of the construction period. So, this assures, as soon as we work over the next 30 days, to tie down every contract, every agreement that we have in writing the way they want it, then that will trigger our agreement with them. They will guarantee the bonds under this accelerated bond purchase program, which is, I think, very important that this group understands.

Second, Tom Howard, who does between two and $4 Billion worth of bonds a year, for the state, has asked me to convey to you that this is as good a deal as he's seen, as far as the state is concerned, as far as any bond issue that he's been involved in. And if he were here today, he would tell you that. He was not involved in the negotiation, he was not involved in the decision making because obviously that would be a conflict as it relates to our responsibility and his. But I wanted to make sure that all of you understood his perspective.

I want to welcome President Blackwell to this group. We deeply appreciate you being here and you couldn't have come at a better time because part of this, as you know, is the minimum guarantee and the maximum guarantee from the City, and with the $116 million in savings, I think you know what that means. I think it means that hopefully we'll never have to go above the minimum as far as the City is concerned, so this is a very important day for you and for Metro Council. We are, however, without tampering with the minimum guarantee and the maximum guarantee going to have to tweak the language in Exhibit B to get it absolutely correct in terms of the bond issuance and you all knew that we were going to do that, so I want to make sure that that's clear. Now we'll open it up for any questions that anyone might have from the Authority to Mr. Carey and his people.

Mr. Bisig said at the risk of redundancy, having had an opportunity to sit in on a previous presentation I just want to reiterate as far as those that are interested and those are involved and those at home, that in Goldman Sachs, we're dealing with literally the New York Yankees of the bond business and that's what I think we committed to do as stewards of this project – deliver the very best. In addition to that, the accelerated bond purchase agreement is unique, which will lead to tens of millions in savings. So, it's a watershed event in yet another chapter in terms of where the Arena is and I commend Goldman Sachs for what they've done. It's no surprise to me that they're working with the Patriots and the Colts and the Yankees and I congratulate them on the ability to offer this product and accelerated bond purchase agreement and it does, Mr. Chairman, what we said we were going to do on behalf of the people, which is get this Arena built right and at the very best dollar, and with the very best partners possible, and that savings is significant and a milestone in terms of our progress I wanted to make sure that all the members understood the gravity of that particular asset that Goldman brings to the table and will join me in whole heartedly endorsing their participation in this critical community initiative. Thank you.

Mr. Patterson added I think we all do understand what they said but I do want to ask one question. The 4.95%, is that locked in today or is that locked in 90 days from now or, how does that work?

Mr. Carey answered if we were doing this transaction today, that is actually conservative. There is some room in that number. These interest rates are not locked, this is not a commitment to buy these bonds today. We have to have binding agreements to have credit. But in today's market, this rate would be 4.75%, there's some room in those numbers today. If the interest rates go up 100 basis points tomorrow, you know, we would have pressure. If they go down 100 basis points, you save a lot more money. But we're looking to finalize the commitment, as soon as, we get the binding agreements ready. We're ready to put this transaction together.

Mr. Host said when the Committee met with Goldman Sacks, we asked them to be conservative. It will take us about 45 to 60 days to take all the MOAs we have and convert them into contracts that are suitable. We've already done LG&E's, and that's going to be suitable, but we've got to finish the Fair Board, we've done MOAs, but we're going to do the contracts, the actual bindable contracts now with U of L, Fair Board and so on. Fortunately, the MOAs we've done are pretty complete, so it shouldn't be any issue. They will lay out to us about 60 different things that we need to get done in the next 30 to 45 days and as soon as we get all those done to their satisfaction, they will then sign a binding agreement with us which will lock in the interest rate and if we do it quickly, the interest rate shouldn't exceed the 4.95% and actually could be less. And if it's less, we'll save more than $116 million that we've just described.

Mr. Buffman addressed this on two levels. First one, simply the merits of the deal. I'm not a member of that Committee, for those of you out in the audience listening, so that much of this is new, but having been involved in a number of projects, this is so beautifully assembled, anticipating good days and bad days, that it's admirable. Part of it comes from the sources of revenue that the Arena Authority has, but this is a perfect fit. And then, to add more good news, I walked in and I saw Greg Carey. I didn't expect to see Greg Carey here, as, we worked on another project. It was not an easy project, but we spent three years on it. All I can tell you is that when you work with Goldman Sachs or Solomon Smith Barney or whatever, it's really down to who is heading the team because that's where half of the battle is won. Those are the people who listen to you or are too busy because they want to run on the beach or whatever. This guy was running on the beach in the Hamptons, but he carried a cell phone with him. He was always available and I had a smile on my face and my memories have been spinning since the late '90s in California, he's really excellent. So, when you know a man, and suddenly he's in your life, it makes you feel surer and better, so I'm delighted.

Mr. Hayes said Mr. Chairman, in the spirit of wanting to move quickly in order to be able to capture what this deal provides us, let me make a motion to go ahead and approve Goldman Sachs to be the underwriter for this issue.

Mr. Ulmer seconded the motion.
Mr. Host noted the second to the motion by Mr.Ulmer and opened for discussion. Then he called on Mr. Blakemore

Mr. Blakemore said to Mr. Carey you mentioned the one billion in revenue before the 573 million of net debt service. That ratio, you mentioned in the presentation that it's a good ratio. What do you normally see?

Mr. Carey responded with what we're trying to do is with this cross-collateralization is, bolster each one of the volatilities in those streams with the Metro guarantee being the strongest and the most certain coming in at a two times type number, we feel very strong with the current interest rate market with that type of coverage. But again the most uncertain is the sales tax increment and the property tax TIF because that's after certain growth – even though the growth has been projected at 4%. Sales tax can go up and down, we go through economic cycles. There is some real volatility in that number.

Mr. Blakemore said the cross-collateralization makes a lot of sense. The question I was trying to get at is how unique is this? Out of 50 of these deals that you see when you have basically a two-to-one ratio, do you see one or do you see 40?

Mr. Carey answered this is probably the first time that these type of streams will be cross-collateralized together. Normally they will be financed individually as their own revenue stream. Because of the benefit of your major tenant being a not-for-profit, because of issues like ticket surcharge, we believe we can get the ticket surcharge to be tax-exempt because of looking at this as the square footage of private use rather than the revenue stream, we take the taxable debt out of this. That's huge. Also the stability of your major tenant and their history with attendance, the stability of the augmentation on the revenue stream there's going to be a lot stronger credit for this Arena. So every transaction is unique. What we're trying to do here is take the uniqueness of these streams and tying them together is the first time this will be done to my knowledge.

Mr. Blakemore said the conservative great rate of 4.95%. What percentage of that do you think is due to the market conditions and is due to this unique structure?

Mr. Carey noted the initial rate was a conservative rate. The other benefit of this unique structure takes zero coupon bonds that you pay 75 basis points more than a current interest bond. Some of it has to do with structure, some of it has to do with rate, some of it has to do with just market rates, so it's a combination of all three.

Mr. Blakemore said considering there's so much savings here, does it make sense to increase the debt reserve or the rainy day fund? And I realize that's not a question to be answered right now, but maybe something to be considered.

Mr. Host added I think that's more of a question for the bond holders once the bonds are sold, and they're normally the ones that are going to ask for the debt reserve based upon the credit.

To answer your question, it's very possible that it might be increased. But, it's going to be Goldman Sachs telling us what they need to do to make the bond issue as good as it can be.

Mr. Blakemore asked so in the effort to make it as good as it can be, is it safe to say that this debt reserve is guaranteed from your perspective? You don't see any obstacles to this happening?

Mr. Host answered that's already in their numbers.

Mr. Carey commented right now our plan of finance has a fully-funded, one year debt reserve. You also have with the Metro guarantee, a certain amount for renewal and capital replacement in those numbers. We believe that is very well thought out in the plan right now.

Mr. Ulmer added I was going to make the comment that we need not to lock-in on how we're going to spend this savings. We have a long way to go and we need not worry about that right now. It's a wonderful piece of news but, we have to get farther down the road before we can figure out where that money can go.

Mr. Hayes said there are a lot of moving parts to this, to be able to bring us to where we are today. Part of those moving parts deal with, five, six, or seven respondents to the RFP. All of those were negotiated. This deal doesn't represent the deal that Goldman walked in with. The state has an interest in who's a partner in this. Metro has an interest. From Metro's interest, President Blackwell wants to see that we try to stay as close to the minimum as we can. Where we find ourselves today is Goldman is able to give us certainty on their balance sheet. They are assuming an element of risk as we move forward, too. We want to see a pro forma that represents to this community the best deal we can get. We think that we have accomplished that. We continue to represent tension on our end to be able to get this Arena built with the best deal possible and the risk being assumed by the people we've hired to manage this project on the development side. Mr. Chairman, the lawyers have asked me to read this motion, word-for-word as they have it written, so if I could rephrase my motion –

Mr. Host said before you do that, I think we need to withdraw the previous motion.

Mr. Ulmer withdrew his second.

Mr. Host said you withdraw the second, and I assume that you will agree to withdraw your motion?

Mr. Hayes answered yes.

Mr. Host asked Mr. Hayes to now restate your motion.

Mr. Hayes said I make a motion to finalize the engagement of Goldman Sachs and under the general terms previously disclosed, and to authorize the Chair to finalize and execute a definitive agreement with Goldman Sachs & Company in a manner not inconsistent with the presentation today in Goldman Sachs attached letter of January 5th, 2007.

Mr. Ulmer seconded the motion.

Mr. Host said now, you've heard the motion and I want to make a global statement. Almost a year and a half ago, actually in May of 2005, we started on this journey with the first meeting of the Governor's Task Force that was formed. And it was composed of the City, of the State and of private citizens. And about four, five meetings into that, we laid out the start of this pro forma – how the revenue streams would work – and where the revenue streams would come from. And it is unique the way it's been put together and the exciting part of this to me is to see a firm with the reputation of Goldman Sachs, and they are the Yankees of the business, come forward and be willing to fundamentally take the issue and go with it.

Mr. Bisig said before we go to a vote, Mr. Carey, let me ask you this simple yes or no question. Is there a single bond arrangement in the nation for a facility like ours being prepared that is superior, is there a single one in the nation that is superior than the one that you're recommending to the Commonwealth? Simple yes or no.

Mr. Carey answered no.

Mr. Bisig thanked Mr. Carey.

Mr. Host asked is there any other questions from any member of the Authority? Are we ready for the vote?

All in favor of the motion which is to give me the authority to enter into an agreement with Goldman Sachs, signify by saying aye.

Mr. Host asked all opposed?

Mr. Host said it's unanimous. The motion is carried and we will immediately go into a private session with Goldman Sachs to start to review more than 60 different things that we have to get done in the next 30 to 60 days in order to complete this transaction and we will keep the Authority apprised.

Mr. Ulmer commented come February, hopefully we'll have solved 90% of it and we'll give you a report on that.

Mr. Host said the Authority will meet at its regularly scheduled meeting next Monday, January 22, 2007 at 9:00 A.M. We will hear the presentation of a recommendation, which hasn't been decided, from the Construction Committee for the authorization to hire a design firm. So that, too, will be a very important meeting for this Authority.

No other business to come before the Authority, the meeting's adjourned.