

California Authority of Racing Fairs



Financing of Improvements to Training and Racing Facilities at the Alameda County Fairgrounds

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Training and Racing Facility Improvements

□ Training Facility Improvements

- ◆ Engineered Track Surface (i.e., Tapeta, Polytrack, Cushion Track)
- ◆ Additional Stabling Capacity, Stormwater Run-off Mitigation and Backstretch Improvements
- ◆ **Requires \$13+ Million in Initial Construction Funds**

□ Racing Facility Improvements

- ◆ Turf Course
- ◆ Grandstand/Paddock/Racing Facility Upgrades
- ◆ **Requires \$34+ Million in Initial Construction Funds**

*Additional funds will also be needed for issuance costs and bond reserve fund.

Financing the Costs of Improvements

□ Use of Tax-Exempt Municipal Bonds

- ◆ Provides a financing method — with legal complications — to publicly issue bonds and repay the loan over the long term, e.g. 30 years
- ◆ Bonds issued by or on behalf of governments, if for public capital facilities, are typically tax-advantaged to investors
 - ◆ Interest is not included in gross income under federal (and state) income tax
 - ◆ Results in substantially lower interest rates to municipal entities—often as much as 2%.

□ Tax-Exempt Bonds Require a Valid Issuer / Entity

- ◆ California Authority of Racing Fairs
- ◆ Authority can access California Fairs Financing Authority **or**
- ◆ Authority could have separate entity created through legislation (like Del Mar or Cal Expo-SB282)

Security for the Bonds

□ Revenue Bonds require “coverage”

- ◆ Anticipated revenues exceed debt service
- ◆ Del Mar (22nd Dist. Ag. Assn.) Revenue Bonds had minimum 2x coverage
- ◆ California Fairs Financing Authority Bonds had minimum 2x coverage

□ Debt Service Reserve Fund

- ◆ Equal to the maximum annual debt service
- ◆ Funded from proceeds of the bonds

Summary of Financing Estimates

	Estimated Facilities Cost	Annual Debt Service Requirement	2x Revenue Requirement
Phase I- Training Improvements			
<i>As Stand-Alone Bond Issues:</i>			
Engineered Surface Installed on Track	\$8,000,000	\$667,472	\$1,334,944
Storm Water Management / Barn Expansion	\$5,000,000	\$430,435	\$860,870
Phase I Improvements (Combined Issue)	\$13,000,000	\$1,063,297	\$2,126,594
Phase II - Racing Improvements			
<i>As Stand-Alone Bond Issues:</i>			
Turf Course	\$4,000,000	\$350,840	\$701,680
Grandstand Improvements	\$30,000,000	\$2,410,052	\$4,820,104
-Paddock upgrade, enclosed weatherized grandstand, upscale seating & boxes, food service upgrade			
Phase II Improvements (Combined Issue)	\$34,000,000	\$2,725,960	\$5,451,920
Both Phases - as one Bond Issuance	\$47,000,000	\$3,755,735	\$7,511,470

Estimates based on conservative market conditions as of 6/5/2008; borrowing cost related to interest rates is approx. 5.75%, all inclusive borrowing costs range from 5.89% – 6.62% based on amount borrowed.

Funds Available To Repay Debt

Existing Revenue Streams

- Stabling and Vanning Fund
- Department of Food and Agriculture

Incremental Revenue Streams

- Additional take-out (e.g., AB2103-proposed)
- Racing Revenues (selected facilities)
- Specified Parimutuel Distributions (e.g., AB765)
- Other

The Financing Process

- ❑ Assemble a finance team
- ❑ Create a definitive finance plan
 - ◆ Financial analysis, review of potential sources and ability to pledge
 - ◆ Legal Structure, including Issuing Entity and Operating Entity
 - ◆ Marketing analysis, identify potential investors and requirements for them to purchase
 - ◆ Develop and adopt necessary legislation
- ❑ Assemble a finance team
- ❑ Develop documentation
 - ◆ Ensure that bonds are valid, binding, tax-exempt (to the extent possible)
 - ◆ Provide for efficient operation of the facility
- ❑ Evaluate the Credit
 - ◆ Rating Agency/Bond Insurer/Private Placement
- ❑ Marketing the Debt
 - ◆ Pricing verification—accountability to the market
- ❑ Closing
 - ◆ Receive the funds and apply to project

The Finance Team

- ❑ Issuer (California Authority of Racing Fairs-Sponsor)
 - ◆ Hires the team
 - ◆ Approves financing and participates in preparation of legal and bond offering documents
- ❑ Financial Advisor—Represents the Issuer (Fieldman, Rolapp & Associates)
 - ◆ Advises on bond pricing, terms and structure suitability, manages financing process
- ❑ Bond Counsel – lawyer/law firm
 - ◆ Prepares bond legal documents
 - ◆ Issues opinion as to validity and exemption
- ❑ Disclosure Counsel – represents issuer
 - ◆ Develops bond offering document
- ❑ Underwriter
 - ◆ Places the bonds with investors at negotiated pricing levels
- ❑ Underwriter’s Counsel – represents underwriters
- ❑ Trustee
 - ◆ Acts on behalf of bondholders, holds funds, receives debt payments and sends to bondholders
- ❑ Rating Agency
 - ◆ Determines credit quality – issues opinions
- ❑ Bond Insurance Company
 - ◆ Provides enhancement of credit – backs the bond payments with their credit for a one-time upfront premium

Pre-Financing Process – Next Steps

□ Develop Plan of Finance – Financial Advisor and Bond Counsel

- ◆ Formulate legal structure for issuance of bonds and operation of facility
 - ◆ Ensure tax-exemption for debt
 - ◆ Determine security level for future bondholders – sources of revenues & pledged coverage level
 - ◆ Develop proposed legislation needed for transaction
- ◆ More precise determination of cash flow needs for bonds
 - ◆ Put in context of overall revenues
 - ◆ Define limit to ability to pledge revenues to bondholders
 - ◆ Prepare contingency plan for periods of pledged revenues shortfall
- ◆ Develop Term Sheet for Bonds
 - ◆ Proposed Security for bonds
 - ◆ Cash flow of various revenue sources
 - ◆ Determine limits on additional related financings paid from pledged revenue sources
- ◆ Assembly of entire financial team

Process Timing

□ Complete Financing Process –120 to 150 days

- ◆ Complete Pre-Financing Process
- ◆ Develop legal structure consistent with legislation, particularly if legislation is needed
- ◆ Evaluate credit quality and need/availability of enhancement
- ◆ Develop and review legal documentation
- ◆ Develop and review disclosure to investors
- ◆ Inform rating agencies/credit enhancers
- ◆ Marketing of bonds to investors
- ◆ Pricing of bonds
- ◆ Closing and transfer of funds

Questions and Discussion