

*State and
Consumer Services Agency*

ANNA M. CABALLERO
SECRETARY



African American Museum
Building Standards Commission
Consumer Affairs
Expo Park
Fair Employment & Housing
Fair Employment & Housing Commission
Franchise Tax Board
General Services
Science Center
Seismic Safety Commission
Public Employees' Retirement System
Teachers' Retirement System
Victim Compensation &
Government Claims Board

December 17, 2012
Sent via E-Mail

Robert Stein, Chair
Board Members
Jeffrey Rudolph, President and CEO
California Science Center
700 Exposition Park Drive
Los Angeles, CA 90037

Re: Proposals Regarding the Los Angeles Memorial Coliseum and Sports Arena

Dear Chairman Stein, Science Center Board Members and Mr. Rudolph:

I am pleased to provide you with the preliminary draft proposals for the Los Angeles Memorial Coliseum ("Coliseum"), the Los Angeles Memorial Sports Arena ("Sports Arena") and the surface parking lots within Exposition Park ("Lots 1-6"). For your convenience, a summary of the draft proposals is attached. These documents will also be posted for public review on the State and Consumer Service website (www.scsa.ca.gov) and the Department of General Services' website (www.dgs.ca.gov).

The draft proposals were developed with the recognition that the State does not have the resources to restore the Coliseum or redevelop the Sports Arena on its own, the venues should be operated in a manner consistent with Exposition Park's public mission and that community involvement is essential to any agreement. To that end, I look forward to working with you to solicit community input on the draft proposals as we move forward.

Sincerely,

A handwritten signature in blue ink that reads "Anna M. Caballero".

Anna M. Caballero

cc: Charmaine Jefferson, CAAM
Thomas Sayles, USC
Belinda Jackson, EXPO Center
Jane Pisano, Natural History Museum
John Sandbrook, Coliseum Commission

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Summary of draft proposals regarding the Los Angeles Coliseum, the Los Angeles Memorial Sports Arena and Surface Parking Lots 1-6 Within Exposition Park

Background

1. The Current Relationships and Obligations: The Los Angeles Memorial Coliseum Commission (“Commission”) currently operates the Coliseum under a ground lease with the 6th District Agricultural Association, aka the California Science Center (“the State”). The ground lease, as well as the agreement that created the Commission expires after December 2054. The University of Southern California (“USC”) currently subleases the Coliseum (but not the Sports Arena) from the Commission.

- The existing Commission/USC sublease requires the Coliseum Commission to make approximately \$70 million in capital improvements to the Coliseum.
- The Commission does not have the financial ability to construct the Coliseum improvements and has determined that it is unable to continue operating the Coliseum unless the Commission and USC enter into a new sublease that, among other things, requires USC to (1) take over the responsibility to construct the Coliseum improvements and to operate the Sports Arena, and (2) to assume the Commission’s obligation to pay rent to the State.
- If the new USC/Commission sublease does not become effective and the Commission breaches its existing sublease with USC, the State will be required to “step into the Commission’s shoes” and take over the Commission’s responsibilities, including the responsibility to fund \$70 million of Coliseum improvements, as well as perform any other Commission obligations under the existing sublease. The State would not receive the Commission’s rent payments for the Coliseum and Sports Arena. These rent payments are deposited into the Exposition Park Improvement Fund which is used for park-wide needs such as landscaping and security, and is currently being used as financial support for the African American Museum and the Science Center.

2. The Proposed New Sublease between USC and the Coliseum Commission: The Commission and USC have tentatively agreed to enter into a new sublease whereby USC can take over management and control of the Coliseum and Sports Arena but only if USC makes substantial investments at both venues.

- The proposed “Amended and Restated Lease and Agreement” (the “new sublease”) between USC and the Coliseum Commission requires USC to assume the Commission’s obligations under the existing USC/Commission lease and requires USC to construct \$70 million in capital improvements over the next ten years. The Commission approved the new sublease in May 2012.
- USC will assume the Commission’s obligation to pay rent to the State for the Coliseum and the Sports Arena.
- In order for USC to approve the new sublease and commit to investing at least \$70 million in the Coliseum and to redevelop the Sports Arena, USC needs assurances that its investments will be protected. That protection comes, in part, from the three

proposed USC/State transactions: (1) a non-disturbance agreement; (2) tail leases; and (3) a lease of the surface parking lots.

- The non-disturbance agreement will allow USC to remain in possession of the Coliseum and Sports Arena as a direct tenant of the State in the event the ground lease between the State and the Coliseum Commission is terminated prior to December 2054;
- “Tail leases,” or option agreements will allow USC to extend its lease of the Coliseum and/or Sports Arena, and Lots 1-6, through December 2111 so long as USC has invested at least \$100 million in the Coliseum and \$50 million in the Sports Arena. If USC does not exercise its option to extend the Coliseum lease, it cannot extend the lease for Lots 1-6; and
- A lease of Lots 1-6 that will run concurrently with the Coliseum sublease (this lease does not include the Science Center parking structure).

The USC/State Proposals

The USC/State proposals involve a non-disturbance agreement, option agreements for the Coliseum and Sports Arena, and a lease for Lots 1-6. The main points of those proposed transactions are as follows:

1. The Non-Disturbance Agreement: Generally, the non-disturbance agreement provides that, in the event the State is required to step into the Commission’s shoes as USC’s landlord, the State will allow USC to continue operating the Coliseum and Sports Arena. Some of the non-disturbance agreement’s significant terms and conditions are:

- Under no circumstance will the State be required to take over the Commission’s responsibility of paying for the \$70 million Coliseum improvements. USC will be responsible for constructing these improvements.
- USC must comply with the public benefit requirements outlined in the Commission’s ground lease with the State (e.g., competitive sports, public recreation, motion picture production or display, festivals, public gatherings), ensuring that USC will continue to operate the Coliseum and the Sports Arena as public venues.
- All major events to be held in the Coliseum will be coordinated through the Exposition Park Manager, a person who is appointed by the Governor and reports directly to a Governor’s cabinet member (currently, it is the Secretary of the State and Consumer Services Agency, as of July 2013 it will be the Secretary of the Natural Resources Agency). This coordination will help instill park-wide fairness and ensure that Coliseum events will not interfere with any of the other park tenants or their events.
- USC can hold up to 25 major events per year in the Coliseum, and can exceed that number only slightly during a time period (no more than four years) *if* the NFL needs use the Coliseum on a temporary basis while a new stadium is being built in the Los Angeles area.
- The other park tenants (the Natural History Museum, EXPO Center, the California African American Museum, and the Science Center Museum) have the right to calendar up to a total 24 major events every year on days that USC Home Football

Games, NFL games or other USC major events have not already been calendared. The Exposition Park Manager will schedule additional events in a manner that will not interfere with other park events.

- The Department of General Services (DGS) has oversight over permanent signs that USC may want to install in the future, or if USC wants to change the type of improvement it wants to construct.
- Encourages USC to redevelop the Sports Arena into a soccer stadium that can house a professional soccer team. If USC decides to redevelop the Arena into something other than a soccer stadium, amphitheater or open space, additional approvals are required by the Board, DGS and a Governor's cabinet member. Any redevelopment must be consistent with the public benefit requirements described above.
- If, after two years of operations, USC decides it does not want to continue operating the Sports Arena, the State is proposing to take the Sports Arena back from both USC and the Coliseum Commission.
- All payments received by the State from USC will be deposited in the Exposition Park Improvement Fund.

2. The Option Agreements: The Option Agreements authorize USC to extend its lease of the Coliseum and/or Sports Arena through December 2111.

- If USC invests at least \$100 million in Coliseum improvements, USC can extend its lease term from 2054 to 2111. And if USC invests at least \$50 million in improvements to the Sports Arena, USC can extend its Sports Arena lease from 2054 to 2111.
- USC's rent for each of these facilities will be reset at the beginning of the option term to reflect the fair market rent at that time.
- The proposal provides incentives for USC to redevelop the Sports Arena into a professional soccer stadium.
- All rent payments made by USC will be deposited in the Exposition Park Improvement Fund.

3. Lots 1-6: Under this part of the proposal, USC can operate and manage Lots 1 – 6. The lease does not affect the parking structure or any special event parking areas, such as North and South Coliseum Drive – those will remain under the State's control.

- In the event USC no longer leases the Coliseum, the State can terminate the parking lease.
- Lots 1-6 will remain surface parking lots and USC has no right to develop the lots into anything else – no parking structure, housing, academic building or any other type of structure can be built on Lots 1-6. Any future request to build anything on Lots 1-6 will need the permission of the Board, DGS and the Governor's cabinet member who oversees Exposition Park, and that permission can be withheld for any reason.

- USC will accommodate school field trip buses and allow charity events to use Lots 1-6 to the same extent that the Park currently makes those accommodations.
- If USC leases the Coliseum through 2111, it can also lease Lots 1-6 through 2111.
- For the base rent, USC has agreed to pay the highest amount of net income the State has received in the past five years from these lots. Additionally, USC has agreed to adjust the base rent for inflation, and to a profit sharing mechanism with the State.
- If the State elects to implement the Master Plan, USC will comply with it.
- USC is required to maintain and operate the Exposition Park parking lots to the same standards that USC maintains and operates its campus parking lots.
- On an ongoing basis, USC will work cooperatively with all of the other Exposition Park entities to address changing parking needs.
- All rent payments will be deposited into the Exposition Park Improvement Fund.