

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)  
501(c)(3) REVENUE BOND FINANCING PROGRAM**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

|                                  |  |                                    |                             |
|----------------------------------|--|------------------------------------|-----------------------------|
| <b>Applicant:</b>                | Museum Associates (d.b.a. Los Angeles County Museum of Art) (LACMA or Borrower)  | <b>Amount Requested:</b>           | Not to exceed \$350,000,000 |
| <b>Applicant Description:</b>    | A California non-profit public benefit corporation, LACMA is the premier visual arts museum in the western United States.  |                                    |                             |
| <b>Type of Financing:</b>        | Refunding  |                                    |                             |
| <b>Bonds to be Refunded:</b>     | California Statewide Communities Development Authority Refunding Revenue Bonds, (Los Angeles County Museum of Art Project) (Variable Rate Demand Obligations), consisting of the Series 2008A Bonds, Series 2008B Bonds, Series 2008C Bonds, Series 2008D Bonds and Series 2008E Bonds (collectively, the 2008 Bonds).   |                                    |                             |
| <b>Prior Bonds Project(s):</b>   | Financed the design, construction, installation, furnishing, equipping, renovation and improvement of the facilities, galleries and exhibits of the Los Angeles County Museum of Art.  |                                    |                             |
| <b>Prior Project Address(s):</b> | 5890, 5905 and 6067 Wilshire Boulevard, Los Angeles, CA (Los Angeles County)<br>710 South Spaulding Avenue, Los Angeles, CA (Los Angeles County)   |                                    |                             |
| <b>Plan of Finance:</b>          | The I-Bank will issue one or more series of Tax Exempt Obligations (as defined below). Such obligations will be limited obligations and the proceeds will be used to refund the 2008 Bonds, and pay for costs of issuance.   |                                    |                             |
| <b>Type of Issue:</b>            | A combination of: <ul style="list-style-type: none"> <li>• One or more series of publicly-offered variable rate securities initially bearing interest at a LIBOR-based index rate sold in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof (Publicly-Offered Securities), and;</li> <li>• Tax-exempt variable rate securities sold in denominations of \$1,000,000 directly to Wells Fargo Municipal Capital Strategies, LLC, a Qualified Institutional Buyer (Direct Purchase Obligations, and together with the Publicly-Offered Securities, the Tax-Exempt Obligations).</li> </ul> |                                    |                             |
| <b>Tax Status:</b>               | Tax-exempt.  |                                    |                             |
| <b>Term:</b>                     | 24 years.  |                                    |                             |
| <b>Enhancement:</b>              | None.  |                                    |                             |
| <b>Credit Rating:</b>            | Expected to be "A3" by Moody's Investors Service based upon the financial strength of the Borrower (Publicly-Offered Securities only).   |                                    |                             |
| <b>Est. Sources of Funds:</b>    |  | <b>Est. Uses of Funds:</b>         |                             |
| Publicly-Offered Securities      | \$240,000,000  | Redemption of Series 2008A and B   | \$179,110,000               |
| Direct Purchase Obligations      | 110,000,000  | Redemption of Series 2008C, D, & E | 163,890,000                 |
| Equity Contribution              | 1,400,000  | Contingency                        | 7,000,000                   |
|                                  |  | Costs of Issuance                  | 1,400,000                   |
| <b>TOTAL SOURCES</b>             | <b>\$351,400,000</b>   | <b>TOTAL USES</b>                  | <b>\$351,400,000</b>        |
| <b>Financing Team:</b>           | <b>Bond Counsel:</b> Hawkins Delafield & Wood LLP<br><b>Borrower's Counsel:</b> Nixon Peabody LLP<br><b>Underwriter:</b> Wells Fargo Bank, N.A.<br><b>Underwriter's Counsel:</b> O'Melveny & Myers LLP<br><b>Trustee:</b> US Bank, N.A.  |                                    |                             |
| <b>Public Benefits:</b>          | LACMA estimates annual debt service savings of approximately \$1 million from the refunding. The refunding will also provide LACMA enhanced flexibility to manage its cash flow in connection with the variable interest rates. As a result, LACMA anticipates that it will continue to efficiently manage its finances and expand its collections, exhibitions, public programs and research facilities that attract nearly a million visitors annually.  |                                    |                             |
| <b>Date of Board Meeting:</b>    | July 23, 2013  | <b>Resolution Number:</b>          | 13-11                       |
| <b>Prepared by:</b>              | Elizabeth Hess and Tara Dunn   |                                    |                             |
| <b>Staff Recommendation:</b>     | Staff recommends approval of Resolution 13-11 authorizing a combination of publicly-offered revenue bonds and privately placed tax-exempt obligations in an amount not to exceed \$350,000,000 for Museum Associates doing business as Los Angeles County Museum of Art.   |                                    |                             |

## BACKGROUND AND HISTORY

Museum Associates, doing business as the Los Angeles County Museum of Art (LACMA or Borrower), is a California non-profit public benefit corporation whose mission is to serve the public through the collection, conservation, exhibition and interpretation of significant works of art from a broad range of cultures and historical periods, and through the translation of these collections into meaningful educational, aesthetic, intellectual and cultural experiences for the widest array of audiences. LACMA's collection of more than 100,000 works of art from around the world spans the history of art, from ancient to contemporary times, including especially strong collections of Asian, Latin American, European, and American art. Through its varied collections, LACMA is both a resource to and a reflection of the many cultural communities and heritages in Southern California, the United States and the world. LACMA shares its vast collections through exhibitions, public programs, and research facilities that attract nearly a million visitors annually.

Founded in 1910 as part of the Los Angeles County Museum of Science, History and Art, LACMA became a separate institution devoted exclusively to art in 1961. Since the opening of its original three-building facility in the Hancock Park area in Los Angeles in 1965, LACMA has expanded to over 921,000 square feet (including approximately 264,000 square feet of exhibition space) in eight buildings on more than 20 acres of park land.

LACMA operates and maintains a museum, owns almost all of the museum's collections and, is comprised of the East Campus and the West Campus (see Attachment A – LACMA Map and Attachment B - Photos). Each of the East and West Campus consists of five buildings. LACMA owns the facilities and land located on the West Campus and several parcels of land across Wilshire Boulevard that are currently used as parking lots for museum visitors, staff and volunteers. The County of Los Angeles owns the land and facilities located on the East Campus.

| East Campus                  |  |
|------------------------------|--|
| Ahmanson Building            | Permanent collections  |
| Hammer Building              | Special exhibitions, Photography, Prints and Drawings, Conservation Center |
| Leo S. Bing Center           | Bing Theater, Brown Auditorium, Plaza Café                                 |
| Art of the Americas Building | Special exhibitions and permanent collections                              |
| Pavilion for Japanese Art    | Collection of Japanese artworks  |

| West Campus                   |   |
|-------------------------------|---|
| BP Grand Entrance Pavilion    | Art installations, ticketing, information, etc. |
| Broad Contemporary Art Museum | Contemporary art                                |
| Resnick Pavilion              | Special exhibitions                             |
| Underground parking structure | Accommodates over 500 vehicles                  |
| LACMA West                    | Closed for renovation                           |

The LACMA Board of Trustees (Board) supervises the management, operation and maintenance of the Museum through its selection of officers and oversight of all employees and agents of LACMA. The Board meets quarterly and is composed of voting Trustees and nonvoting Life Trustees. Trustees are elected by the Board at the annual meeting in June to a three-year term. Trustees are not compensated for their service on the Board. A list of

LACMA's current Executive Staff and Board of Trustees is provided in Attachment C - Governance and Management.

### **Previous Financing**

In 2008, the California Statewide Communities Development Authority (CSCDA) issued Refunding Revenue Bonds (Los Angeles County Museum of Art) Series 2008 A–E (2008 Bonds) in the amount of \$383,000,000. The 2008 Bonds were used to refund the outstanding CSCDA Revenue Bonds (Los Angeles County Museum of Art Project), Series 2007 A–D and the outstanding CSCDA Revenue Bonds (Los Angeles County Museum of Art Project) Series 2004 A–C, which financed the design, construction, installation, furnishing, equipping, renovation and improvement by LACMA of the facilities, galleries and exhibits of the Los Angeles County Museum of Art (collectively, Prior CSCDA Bonds). The 2008 Bonds are currently outstanding in the amount of \$343,000,000.

The Prior CSCDA Bonds were used to finance and refinance a portion of LACMA's multiphase Transformation Project started in 2004. The Transformation Project aimed to expand, upgrade, and unify the LACMA's 20-acre campus through the addition of new buildings, reinstalled permanent collection galleries, and the addition of monumental, destination artworks.

LACMA has completed Phase I and Phase II of its Transformation Project, which comprised construction of the following improvements:

- The Broad Contemporary Art Museum building, an approximately 60,000 square feet of gallery space situated along Wilshire Boulevard;
- The Lynda and Stewart Resnick Exhibition Pavilion, the largest purpose-built, naturally lit, open-plan museum space in the world providing 45,000 square foot space for special exhibitions;
- Ray's and Stark Bar, a new restaurant and bar located within the BP Grand Entrance;
- The BP Grand Entrance, housing periodic art installations, Ray's and Stark Bar, ticketing, information and other visitor amenities;
- The underground Pritzker Parking Garage, providing parking for more than 500 vehicles;
- The Dona S. and Dwight M. Kendall Concourse, a covered walkway linking the East and West Campuses;
- Installation of major public artworks and landscaping throughout LACMA's campuses, including work by Chris Burden (Urban Light), Robert Irwin (Palm Garden), Tony Smith (Smoke), and Michael Heizer (Levitated Mass);
- Significant upgrades to the Ahmanson Building atrium and galleries on the East Campus; and
- Increased capacity in LACMA's central heating and cooling plant to provide power for the new facilities.

## **PLAN OF FINANCE**

LACMA requests the current refunding of the outstanding 2008 Bonds and the issuance of Tax-Exempt Obligations in an amount not to exceed \$350,000,000.

Tax-exempt obligations will be used to (i) current refund the 2008 Bonds, (ii) pay and/or reimburse routine capital expenditures and miscellaneous costs of construction, renovation, improvements and equipping of the museum facilities and (iii) pay various costs of issuance and other related costs. The tax-exempt obligations are expected to be a combination of securities as described below:

- One or more series of publicly-offered variable rate securities (Publicly-Offered Securities), and;
- Tax-exempt variable rate securities sold directly to Wells Fargo Municipal Capital Strategies, LLC, a qualified institutional buyer (QIB) and/or another QIB (Direct Purchase Obligations, and together with the Publicly-Offered Securities, the Tax-Exempt Obligations).

| Series | Par Amount                       | Public/Private Sale                    |
|--------|----------------------------------|--|
| 2013A  | \$80,000,000                     | Publicly-Offered                       |
| 2013B  | \$80,000,000                     | Publicly-Offered                       |
| 2013C  | \$80,000,000                     | Publicly-Offered                       |
| 2013D  | \$103,000,000 -<br>\$110,000,000 | Direct Purchase<br>(Private Placement) |

**Publicly-Offered Securities:**

The Publicly-Offered Securities portion of the Tax-Exempt Obligations will be offered to the public in an interest rate mode set at 70% of the London Interbank Offered Rate (LIBOR) index plus the index mode spread (Index Mode Interest Rate). The spread component of the Index Mode Interest Rate is dependent on a number of factors, including but not limited to: LACMA's credit rating from Moody's Investor Service and market conditions at the time of pricing. The rating is currently expected to be "A3" based solely on the financial strength of Museum Associates. The Publicly-Offered Securities will have an intermediate term of no more than 5 years and will be sold in minimum denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000.

**Direct Purchase Obligations (Private Placement):**

The Direct Purchase Obligations portion of the Tax Exempt Obligations will be privately placed in denominations of \$1,000,000 and purchased directly by Wells Fargo Municipal Capital Strategies, LLC (Wells Fargo or Purchaser) with an interest rate also based on the LIBOR index with an expected spread of 100-110 basis points. The Direct Purchase Obligations will have a 4-year term. Wells Fargo is a qualified institutional buyer as defined in Section 144(A) promulgated under the Securities Act of 1933, as amended.

In accordance with the I-Bank "Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities" (Policies), the I-Bank's general policy is to issue bonds and similar obligations bearing certain minimum ratings. The Policies provide that the I-Bank may waive the requirement for a credit rating where the applicant will use a private placement or limited underwriting offering structure subject to the following additional conditions:

1. **Sophisticated Investor.** The investor(s) will be required to sign a "sophisticated investor" letter acceptable to the I-Bank. Each investor must be a qualified institutional buyer within the meaning of S.E.C. Rule 144A (Qualified Institutional Buyer), or an equivalent sophisticated investor with a demonstrated understanding of the risks associated with the municipal market, acceptable to the I-Bank.

2. **Resale Limitations.** Depending on the circumstances of the proposed sale, the I-Bank may require conditions for the resale of the Bonds<sup>1</sup> after initial issuance.
3. **Minimum Denomination.** The I-Bank will require a minimum bond denomination of at least \$100,000 on private placements or limited underwritten offerings; denominations may be higher depending on the circumstances of the sale.

The Direct Purchase Obligations will only be offered to and purchased by Wells Fargo, a Qualified Institutional Buyer, and thus constitute a private placement for purpose of the Policies. In order to meet the I-Bank's requirements for private placements, Wells Fargo must provide a sophisticated investor letter (Letter) at closing certifying, among other things, that: (i) it is a Qualified Institutional Buyer, (ii) it has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the tax-exempt securities and that it is able to bear the economic risks of such investment; and (iii) provisions in the financing agreements that prohibit the sale of Wells Fargo's interest in the Direct Purchase Obligations except to another Qualified Institutional Buyer or an "accredited investor" within the meaning of Rule 501 promulgated under the Securities Act as well as an I-Bank required provision that shall only permit a sale, transfer or distribution by the Purchaser in denominations of \$1,000,000 and any larger denomination constituting an integral multiple of \$5,000.

As a whole, the Tax-Exempt Obligations will be issued pursuant to one or more indentures between the I-Bank and U.S. Bank National Association as Trustee (Indenture), and a loan of the proceeds of the Tax-Exempt Obligations will be made through one or more loan agreements between the I-Bank and Museum Associates d.b.a. LACMA (Loan Agreement).

In no event shall the Tax-Exempt Obligations constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State, including the I-Bank, shall be liable to make any appropriation for the repayment of the Tax-Exempt Obligations. The Tax-Exempt Obligations constitute a limited obligation of the I-Bank, payable solely from revenues pledged under the Indenture. Such revenues consist primarily of loan repayments made pursuant to the Loan Agreement by Borrower.

## PUBLIC BENEFITS

LACMA estimates that the Tax Exempt Obligations will achieve debt service savings to be in excess of \$1 million per year for each of the first five years depending on market conditions at the time of pricing and the final financing structure. Additionally, LACMA anticipates the Direct Purchase Obligations will provide covenant relief on the current unrestricted net assets to debt ratio test.

As such, LACMA expects that the refunding will effect a restructuring of tax-exempt debt with new interest rate modes and will provide it with enhanced flexibility to manage cash flow and to continue to manage efficiently its finances. In addition, the restructuring will eliminate on-going costs associated with the current letters of credit.

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<sup>1</sup> For the policy description in this staff report, "Bonds" also includes Direct Purchase Obligations.

LACMA anticipates continuing to improve the quality and presentation of its art collections and to serve as a premier cultural resource to the Los Angeles community, the State and to visitors from other states and international communities.

**OTHER PROJECT DATA**

|   |   |
|---|---|
| <b>PERMITS AND APPROVAL</b>   |   |
| Required?   | <input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES, Describe:</b>  |
| <b>TEFRA</b>  |   |
| Date of TEFRA   | July 18, 2013   |
| Publications  | <i>Los Angeles Daily News</i><br><i>The Sacramento Bee</i>  |
| Oral/Written Comments Received  | <input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES, Explain:</b>   |
| <b>LEGAL QUESTIONNAIRE</b>  |   |
| Completed?  | <input type="checkbox"/> <b>NO</b> <input checked="" type="checkbox"/> <b>YES</b>   |
| Issues?   | <input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES, Explain:</b>   |
| <b>ELIGIBILITY REVIEW</b>   |   |
| Project meets Public Interest Criteria (per G.C. § 63046 and 63047(d))<br><input checked="" type="checkbox"/> <b>YES</b> <input type="checkbox"/> <b>NO</b>   | <ol style="list-style-type: none"> <li>1. The Tax-Exempt Obligations are for a use in the State of California.</li> <li>2. Borrower is capable of meeting the obligations incurred under the proposed Loan Agreements and tax agreement and, in particular as to its loan repayment obligations which secure the Tax-Exempt Obligations as a result of having met the requirements for a rating of at least A- on the Publicly-Offered Securities, based on the financial strength of the Borrower, and based upon the Purchaser's commitment to purchase the Direct Purchase Obligations.</li> <li>3. Payments to be made by the Borrower to the I-Bank under the proposed financing agreements are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments.</li> <li>4. The proposed financing is appropriate and is being used to refinance bonds used for the Prior Bonds Projects.</li> <li>5. Borrower has represented that the facilities originally financed with the proceeds of 2008 Bonds were consistent with any existing local or regional comprehensive plans.</li> </ol> |
| The Tax-Exempt Obligations meet the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board:<br><input checked="" type="checkbox"/> <b>YES</b> <input type="checkbox"/> <b>NO</b><br>However, the Direct Purchase Bonds require an approval consistent with a waiver of rating requirements established in the Policies. The Direct Purchase Bonds meet the basis for such a waiver. |   |
| <b>INDUCEMENT CERTIFICATE</b>   |   |
| Completed?  | <input type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES</b> Certificate No.:<br><input checked="" type="checkbox"/> <b>N/A</b> Date:   |

**RECOMMENDATION**

Staff recommends approval of Resolution 13-11 authorizing a combination of publicly-offered revenue bonds and privately placed tax-exempt obligations in an amount not to exceed \$350,000,000 for Museum Associates doing business as Los Angeles County Museum of Art.

# ATTACHMENT A – LACMA Map

**1 PAVILION FOR JAPANESE ART**

1, 2, 3 Japanese Art

**2 BING CENTER**

1 Brown Auditorium  
2 (PL) Bing Theater  
Plaza Café

**3 ART OF THE AMERICAS BUILDING**

1 Art Rental and Sales Gallery  
2 (PL) Special Exhibitions  
3 American Art  
4 Latin American Art (Art of the Ancient Americas)

**4 HAMMER BUILDING**

2 (PL) Boone Children's Gallery  
Gift Store  
Korean Art  
Ticket Office  
Art of the Ancient World

**5 AHMANSON BUILDING**

1 Art Catalogue Store  
Art of the Pacific  
Modern Art  
2 (PL) Rifkind Gallery for German Expressionism  
Special Exhibitions  
3 Art of the Ancient World  
European Art  
4 Islamic Art  
South and Southeast Asian Art

**6 BP GRAND ENTRANCE**

1 Ray's and Stark Bar  
Ticket Office

**7 BROAD CONTEMPORARY ART MUSEUM**

1, 2, 3 Contemporary Art

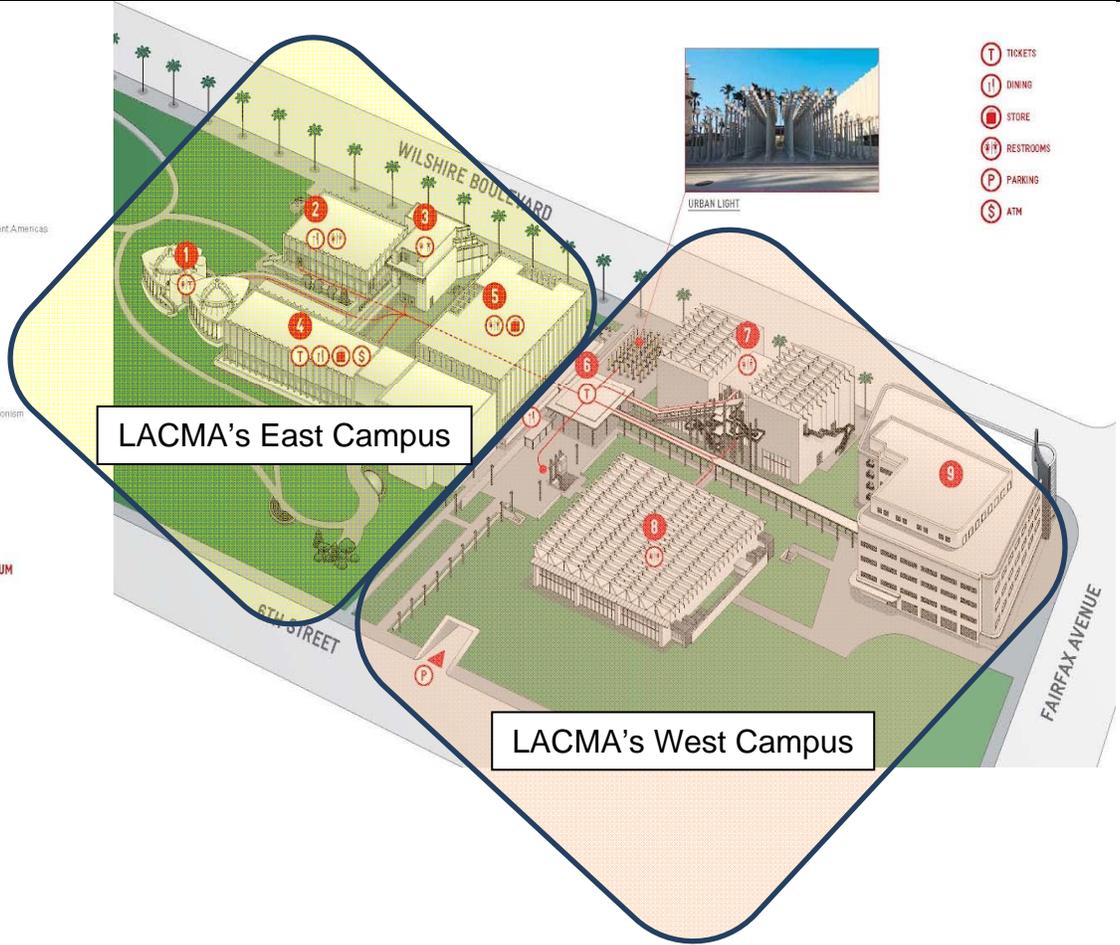
**8 RESNICK PAVILION**

1 Special Exhibitions

**9 LACMA WEST**

Closed for Renovation

- T TICKETS
- D DINING
- S STORE
- R RESTROOMS
- P PARKING
- A ATM



ATTACHMENT B – Photos



BP Grand Entrance & Ahmanson Building from Wilshire Boulevard



Resnick Pavilion



The Frances and Armand Hammer Building



Courtyard between Ahmanson and Hammer buildings



Latin Sounds on Saturday nights on the grounds of LACMA

## ATTACHMENT C - GOVERNANCE AND MANAGEMENT

Below is a list of LACMA's current executive staff and Board of Trustees.

| <b><u>Executive Staff</u></b>        |   |                                |
|--------------------------------------|---|--------------------------------|
| Michael Govan                        | CEO and Wallis Annenberg<br>Director                            |                                |
| John Bowsher                         | Vice President of Museum<br>Infrastructure                      |                                |
| Jane Burrell                         | Senior Vice President of Education<br>and Public Programs       |                                |
| Fred Goldstein                       | Vice President, Administration<br>General Counsel and Secretary |                                |
| Terry Morello                        | Vice President of External Affairs                              |                                |
| Ann Rowland                          | Chief Financial Officer   |                                |
| Nancy Thomas                         | Deputy Director for Art<br>Administration and Collections       |                                |
| <b><u>Board of Trustees</u></b>      |   |                                |
| <b><i>Co-Chairs of the Board</i></b> | Andrew Gordon   | Terry Semel                    |
| <b><i>Vice Chairs</i></b>            | William H. Ahmanson   | Willow Bay                     |
|                                      | Robert Kotick   | Lynda Resnick                  |
|                                      | Tony Ressler  |                                |
| <b><i>Trustees</i></b>               |   |                                |
| Wallis Annenberg                     | Brian Grazer  | Anthony N. Pritzker            |
| Mark Attanasio                       | Ghada Irani   | Janet Dreisen Rappaport        |
| Frank E. Baxter                      | Victoria Jackson  | Edward P. Roski, Jr.           |
| Colleen Bell                         | Suzanne Kayne   | Steven F. Roth                 |
| Dr. Rebecka Beldegrun                | Lyn Davis Lear  | Carole Bayer Sager             |
| Nicholas Berggruen                   | Bryan Lourd   | Florence Sloan                 |
| David C. Bohnett                     | Michael Lynton  | Eric Smidt                     |
| Suzanne Deal Booth                   | Robert F. Maguire III   | Michael G. Smooke              |
| Brigitte Bren                        | Jamie McCourt   | Barbara Streisand              |
| Eva Chow                             | Richard Merkin M.D.   | Sandra W. Terner               |
| Ann Colgin                           | Heather Mnuchin   | Steve Tisch                    |
| Kelvin Davis                         | Wendy Stark Morrissey   | Casey Wasserman                |
| Kelly Day                            | Jane Nathanson  | Elaine Wynn                    |
| Joshua S. Friedman                   | Peter Norton  | Dasha Zhukova                  |
| Gabriela Garza                       | Geoffrey Palmer   |                                |
| Tom Gores                            | Viveca Paulin-Ferrell   |                                |
| <b><i>Life Trustees</i></b>          |   |                                |
| Daniel N. Belin                      | Robert A. Day   | William A. Mingst              |
| Mrs. Lionel Bell                     | Camilla Chandler Frost  | Mrs. Lillian Apodaca<br>Weiner |
| Donald L. Bren                       | Julian Ganz, Jr.  | Walter L. Weisman              |
| Eli Broad                            | Mrs. Dwight M. Kendall  |                                |