



TO: T.C. Broadnax, City Manager
FROM: Andy Cherullo, Director, Finance Department
COPY: City Council and City Clerk
SUBJECT: Request for Resolution – Early Termination of Leveraged Lease – Pantages Theater
DATE: September 3, 2014

SUMMARY:

Request for early termination of a lease agreement between the City and the tax credit investors, led by Urban Securities Profit Sharing Trust, Inc.

BACKGROUND:

In February 1983, the City of Tacoma entered into a series of simultaneous lease transactions (the "Lease") in order to monetize available tax credits to provide funding for improvements to the Pantages Theater. While the transaction was complex and involved a number of leases and subleases between the City (through TCRA) and limited purpose entities formed for the purposes of the transaction, it is, at its most fundamental level, a 65-year lease between the City and the tax credit investors, led by Urban Securities Profit Sharing Trust, Inc. The Lease expires in 2048, with optional early termination, at fair market value, in either 2018 or 2028.

ISSUE:

The Broadway Center is currently in the process of soliciting public and private donations and support through its Centennial Campaign. Funds raised will be used to make improvements to the City's performing arts facilities. The goal of the campaign is to raise approximately \$45 million from combined sources, including a requested amount of \$15 million from the City of Tacoma. The Broadway Center's request of the City consists of three distinct phases: (1) terminating the Lease; (2) exploring the potential of structuring and issuing a new market tax credit financing of approximately \$7 million; and (3) donating approximately \$8 million in cash. The City has advised the Broadway Center of its current structural budget deficit and constraints on providing credit and/or cash resources to the Centennial Campaign and has advised that it may not be able to complete all of the phases. The City is nearing completion on the first phase of its plan and is poised to effectuate the termination on September 10th. This early termination will release contractual encumbrances on the facilities and allow the City to pursue the second phase of the plan, which is to explore the possibility of structuring a new market tax credit financing to raise funds which could then be applied to the Centennial Campaign's \$15 million funding request.

A portion of the up-front payment received by the City when the Lease was originated in 1983 was invested and specifically reserved to offset the purchase price of the theater in the City's option years of 2018 or 2028. The reserved amount is sufficient to satisfy the termination payment of \$3.295 million, such that the City will not be utilizing General Fund moneys for this purpose.

Once termination has been successfully completed, staff will begin evaluating options which may be utilized to fund improvements to the Broadway Center facilities.



ALTERNATIVES:

The alternative to approval of the early termination would be to let the Lease continue, evaluating the costs and benefits of early termination in either 2018 or 2028.

RECOMMENDATION:

Approve the early termination agreement.



FISCAL IMPACT: The City shall pay a termination fee to UST and the Partnership the sum of Three Million Two Hundred Ninety-Five and No/100 Dollars (\$3,295,000.00) for the termination of the Subleases

EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
4190-PANTA Pantages Investment Fund			\$3,295,000
TOTAL			\$3,295,000

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Lease Reserves held in escrow			\$3,295,000
TOTAL			\$3,295,000

POTENTIAL POSITION IMPACT:

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
N/A			
TOTAL			

This section should only be completed if a subsequent request will be made to increase or decrease the current position count.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: N/A

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? N/A

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED.