Subject: FW: Civic Center Plaza
Date: Monday, November 16, 2020 at 3:26:18 PM Central Standard Time
From: Jason Hughes
To: Stephen C. Grebing
CC: Shay Hughes
Attachments: image001.png

Disclosure to Mary Lewis & Ron Villa

From: Jason Hughes <jason@hughesmarino.com>
Sent: Tuesday, October 21, 2014 5:28 PM
To: Lewis, Mary (MLewis@sandiego.gov) <MLewis@sandiego.gov>
Cc: Villa, Ron <RHVilla@sandiego.gov>
Subject: Civic Center Plaza

Hi Mary-

I hope you've been well!

I wanted to follow up on a concept that might have gotten lost in translation between me and others before getting to you about an alternative way to purchase Civic Center Plaza ("CCP"). When meeting with Cybele, she said that the City cannot be involved with a private bond as it would adversely affect the City's credit rating, and from prior discussions with Ron, John and Brad I understand the inherent TI funding problem. Per their suggestion, I started thinking about how I could structure a deal similar to the Sempra type "lease-to-own" setup where I could get a third party to fund the needed TI's for asbestos abatement and remodel. As I discussed further with Ron and Brad in the past, this route is really like an investment banking type transaction, so I would seek compensation for this role (obviously not from the City) – but regardless, I have some good ideas that I began working on. One of the best aspects of this concept is the City does not need to be on the bond whatsoever…

Here is the concept:

- The City signs a 20 year normal lease at CCP – but gets full ownership after the term. The City would NOT be involved with a bond.
- Lease terms include:
  - 20 year term commencing January 1, 2015
  - Landlord provides for $15 million cash for tenant improvements to the building (i.e. asbestos abatement, remodeling, etc.)
  - $1.15 sf per month plus utilities, maintenance and janitorial
  - 2.5% annual rental increases
  - No property taxes
  - City self-insures the building
  - Total monthly obligation would be substantially less than current rent – AND the City would then own the building free and clear after 20 years
- TIAA is the bond issuer. They can do a 3.85% interest rate (which is why we can drop to a 20 year lease and still have it be so inexpensive).
- The bond team says that the City is absolutely NOT on the bond. It is a simple capital lease. While it might need to be reported on the balance sheet as a liability, the terms are vastly under market – and could, they believe, be offset via subleasing to become an asset if necessary. Plus the ownership

interest shows up as an asset – offsetting the liability.
- Bond could be in place in 60 days from rate lock.
- If the City wanted lower payments, a 25 year lease term would be at $1.05/sf and a 30 year term would be at $0.94/sf.
- This is better (and cheaper) than public sector financing, allows you to close the deal fast, gives the City an extra $15 mil for tenant improvements – and is all done with a simple lease. And after 20 years, the building owns it free and clear.

I look forward to your thoughts. I certainly understand if this is a non-starter for reasons beyond what I have thought of – but I just wanted to make sure everyone understood the deal at hand clearly.

Thanks!

-Jason

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