EXECUTIVE OFFICE **INTER-COMMUNICATION**

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To: Richard Wright

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(Institution or Department)

Date: July 28, 1993

RE: Financial Issues Related
to Atlantic City Corridor Project

As you're aware, the CRDA, along with its consultants and Treasury and EDA staff have been meeting with potential developers of the headquarters hotel and retail/entertainment complex in the Atlantic City entrance corridor. At this point, we expect to receive proposals in September from at least two hotel developers and at least two entertainment/retail complex developers. In preparing to receive those proposals, the State people have been working to refine prior estimates of project cost and potential financing.

For reasons outlined in detail below, we believe that the Corridor plan will require draining $100 million from CRDA's South Jersey allocation, which leaves $100 million less for Camden, Trenton and the rest of South Jersey. It also requires DOT to put up a minimum of $20 million in State cash over the next two years. Further, CRDA is likely to need a guarantee from some governmental entity in order to sell the parking tax bonds anytime in the next year.

Even with those measures, we probably will have to forego the expected proposal from the developer who wishes to build out the entire corridor as a single hotel/entertainment complex. Even if the developer contributes a substantial level of private mortgage money and equity, the proposal will likely require more public money that we can raise.

I. Cost

The Corridor finance plan today includes two groups of costs -- (A) casino hotel rooms; and (B) the headquarters hotel, retail/entertainment complex and associated infrastructure.

A. Casino Hotel Rooms

The parking tax law set aside $100 million in CRDA obligations for use by the casinos in building hotel rooms by 1996, the year the new convention center opens. Although most of the casinos have yet to officially file applications, it appears that six casinos will take advantage of the set-aside, adding 3,000 rooms. As a condition of approval, the CRDA will seek first booking rights to those rooms for convention center use.

The legislation did not set any requirement as to whether the $100 million in CRDA funds should come from the Atlantic City allocation or the South Jersey allocation. That choice is within the discretion of the authority (See also "Closing the Gap" below).

B. Headquarters Hotel, Retail/Entertainment Complex and Associated Infrastructure

The Corridor Project itself consists of redevelopment of the approximately 13-square block area between the new convention center and the boardwalk. The most critical blocks include those on which the lagoons, the headquarters hotel, the retail/entertainment complex, and the Ducktown redevelopment would be built. (See attached map). The project includes the closure of Arkansas Avenue, the widening of Michigan Avenue, and the movement of Missouri Avenue away from Pitney Village to create a buffer. In addition, the CRDA would build the boardwalk running along the lagoons from the new convention center to the existing boardwalk.

Planning to date has assumed the CRDA would pay 100% of the cost of land acquisition and environmental cleanup, as well as 100% of the bill for infrastructure. That cost is estimated at $110 million.

One developer, who has done a marketing study and developed a program, plans to propose a 600-room headquarters hotel with an estimated construction cost of $100 million -- $110 million if land is included. Thus, $100 million is probably a valid estimate of the construction cost of the hotel.

The cost of constructing a retail/entertainment complex is hard to price without a detailed program, because fitup varies from $150/square foot for a standard movie complex or mall to $1,000/square foot for virtual reality simulators. At this point, we are using an estimate of $400 million for a development covering four blocks. The major question is how much of the development cost of the hotel and retail/entertainment complex will be absorbed by the private sector and how much will require a subsidy from CRDA or another state agency.

There is an additional uncertainty in the financing plan. At least one developer is considering a proposal to build two hotels -- (1) a casino hotel comprised of the existing Regency and what is now the west hall of the old convention center; and (2) the headquarters hotel. CRDA's statute bars CRDA from financing casinos, or hotels for casinos not existing today. That financing would have to be handled through EDA and the Sports Authority, as owner of the old convention center. The casino hotel would be used, however, to feed additional guests to the headquarters hotel, and to act as a cash flow generator to help subsidize the headquarters hotel through at least the first five years, which probably will be lean years.

II. Funding Sources

A. CRDA

CRDA itself today has approximately $15 million in cash on hand which can be used for the corridor.

CRDA hopes to raise $120 million through bonds payable from the expected $16 million a year in parking tax revenues. Even if the bonds can be sold without a guarantee of some other governmental entity (which is not at all clear), it will be several months before that is accomplished. CRDA probably will have to apply one or two months of collections directly to the project, in order to keep the project moving.

CRDA has a future stream of bond obligation money (see attachment B). In Atlantic City, the total through the year 2016 is about $150 million in non-housing money. In South Jersey, there is about $300 million through the year 2016. Converting that stream of bond obligation money into actual cash requires casino cooperation. They either agree to make direct investments, or they agree to donate funds. The usual ratio of credit for donations is $1.50 credit for $1 donated. In a donation scenario, the Atlantic City funding stream has a value of $100 million, or an average of $4.5 million/year. The South Jersey funding stream has a value of $200 million, or about $9 million/year. The casinos will go the direct investment route for the $100 million that will be spent on additions to their existing facilities. Further, Caesars already has indicated it is willing to make a direct investment of its South Jersey obligation money into the Corridor. Other casinos, especially Bally and Trump, which are in the corridor, also may be willing to make either direct investments or donations from South Jersey funds.

B. DOT

Several months ago, at a meeting chaired by Bob DeCotiis, Commissioner Downs agreed to fund the road work, which is estimated at $20 to $30 million, through DOT.

NJ Transit also will be faced with a cost to move its bus terminal and maintenance facility out of the Corridor. That could cost up to $5 million, with additional operating outlays of as much as $700,000/year.

C. Private Sector Funding

Conversations with developers and finance groups to date suggest that the strongest opportunity for private sector funding is the retail/entertainment complex. The pension funds and other traditional sources of first mortgage money are again making loans to retail/entertainment projects, provided the developer is strong and the underlying tenants have a track record or are themselves bankable. We believe we can conservatively project a first mortgage and equity contribution of $110 million, for the entertainment complex, or a third of the project cost (leaving $190 million to be covered by the public sector). The level of private finance capability available depends in part upon the final mix of retail and entertainment uses. Standard retail probably will attract more private mortgage money than will entertainment uses. The maximum private participation is probably 70% of total cost, or about $220 million (leaving $80 million to be raised by the public sector). Given the strengths and weaknesses of various entertainment/retail mixes, the State is likely to face a strategic policy and financial decision, weighing the extra drawing power of an entertainment-driven complex against the extra difficulties in financing it.

The headquarters hotel is the hardest to finance through private sector sources. Most lenders will not consider a hotel anywhere because of the glut in the national marketplace. Nonetheless, one hotel company already has indicated it will offer CRDA $40 million in a combination of a first mortgage and equity funding. That leaves $60 million to be raised publicly.

III. Comparison of Costs and Known Financing Sources

<u>Projected Cost</u>

Casino rooms	$100 million
Headquarters hotel	$100 million
Retail/entertainment complex	$300 million
Land and Infrastructure	$110 million
Total Cost	$610 million

<u>Potential Funding Sources</u>

CRDA cash	$ 15 million
CRDA set-aside for casino hotels	$100 million
Parking tax bonds	$120 million
DOT	$ 20 million
Private equity/mortgage	$150 - $260 million
Total Identified Funding	$405 - $500 million
GAP	$205 million

IV. <u>Closing the Gap</u>

The first option is to downsize the development. Downsizing has its limits, however. It reduces the level of gap financing needed for actual construction, but it does not affect the underlying costs of land, cleanup and infrastructure. We think $100 million is a reasonable estimate of the reduction in gap financing needed if immediate development is limited to the hotel plus two blocks of retail/entertainment complex.

The only immediate source of funding for the remaining $105 million is CRDA future obligations, and the choice is to either drain Atlantic City's economic development fund completely or take up to a third of South Jersey's money.

The major problem is that the parking tax bill, which is expected to raise $120 million in bonding capacity, also cost $100 million in CRDA obligations. It produced an important public benefit -- an additional 3,000 hotel rooms that will substantially contribute to making the convention center viable -- but it added $100 million in new costs.

There is $150 million in Atlantic City non-housing money through the year 2016. The mayor and the community have been told that the budget for the Corridor was $70 million. So if CRDA takes $100 million from Atlantic City non-housing funds to meet the set-aside for casino hotels, it will have to justify the additional $30 million. That leaves approximately $50 million for all other economic development in Atlantic City through the year 2016. The $50 million probably isn't enough to close the Corridor financial gap, and consuming all of it probably would result in an enormous outcry from the community.

Atlantic City has another $150 million in housing money, but tapping it for economic development would require a board finding that all of the housing needs of the residents of Atlantic City in 1983 and 1984 has been met. At the moment, there is no basis to make such a finding.

South Jersey has a funding stream of approximately $300 million through the year 2016. If a third of that is put toward the Corridor, that would leave approximately $200 million for Camden, Trenton and the rest of South Jersey. The casinos dislike investing outside of Atlantic City, and they despise the CRDA's 50-year bonds. Consequently, there may be some leverage to argue that in return for being allowed to invest South Jersey money in Atlantic City, the casinos must make immediate donations or investments in a pool for Camden and Trenton. That would help to provide some assurance to the rest of South Jersey that it will see some benefit from CRDA funds.

L.S.

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Attachment
c: Robert Lurie

MARCH 1992

CRDA PROJECTED OBLIGATIONS

	SOUTH	NORTH
1992	3,481,800	2,115,342
	3,849,621	2,324,013
	7,549,317	6,247,832
	9,019,326	6,726,893
	10,032,004	7,686,032
	10,665,409	8,244,032
	11,429,789	8,879,319
	16,203,123	10,707,651
	17,023,281	11,144,366
	18,969,562	12,401,198
	20,119,493	13,122,422
	21,212,532	13,683,806
	22,689,395	16,808,627
	23,435,115	17,523,566
	25,133,573	18,734,663
	26,252,264	19,588,520
	27,129,551	20,482,852
	10,321,290	7,489,472
	9,319,375	6,696,897
	7,182,375	5,306,864
	6,314,893	4,911,584
	4,343,056	3,377,932
	4,040,986	3,142,989
	4,178,415	3,249,878
2016	1,889,984	1,469,987
	321,785,529	232,066,736

ALL CASINOS PROJECTED	ATLANTIC HOUSING	ATLANTIC NON-HOUSING
1993 - 2nd,3rd,4th qtrs	13,230,024	8,395,457
1994	12,564,148	10,702,061
1995	11,912,134	11,912,134
1996	11,610,806	11,610,806
1997	11,664,097	11,664,097
1998	11,598,440	11,598,440
1999	9,204,706	9,204,706
2000	9,232,971	9,232,971
2001	8,429,866	8,429,866
2002	8,252,293	8,252,293
2003	8,175,980	8,175,980
2004	6,799,843	6,799,843
2005	6,860,050	6,860,050
2006	6,296,590	6,296,590
2007	6,185,669	6,185,669
2008	6,183,289	6,183,289
2009	2,687,745	2,687,745
2010	2,418,367	2,418,367
2011	1,687,879	1,687,879
2012	1,384,853	1,384,853
2013	977,272	977,272
2014	862,049	862,049
2015	891,510	891,510
2016	145,459	145,459
TOTAL	159,256,041	152,559,388