



City of Sacramento City Council

915 I Street, Sacramento, CA, 95814

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Meeting Date: 2/26/2013

Report Type: Staff/Discussion

Title: Principles, Professional Services Budget, Contract Amendment and Council Direction to Complete Due Diligence and Negotiate Preliminary Terms for the Potential Development of a Downtown Entertainment and Sports Center

Report ID: 2013-00234

Location: Citywide

Recommendation: Pass a motion: 1) adopting principles for due diligence and the negotiation of preliminary terms for the potential development of a downtown entertainment and sports center; 2) authorizing the City Manager or his designee to complete due diligence and negotiate preliminary terms for the development of a downtown entertainment and sports center consistent with the adopted principles; and 3) authorize the City Manager or his designee to increase City agreement #2013-0108 with Barrett Sports Group by an amount not to exceed \$90,000 subject to approval as to form by the City Attorney. Pass a Resolution authorizing the City Manager to transfer \$150,000 from the General Fund administrative contingency to the City Manager's Office budget to fund professional and legal services for due diligence and negotiation of preliminary terms for the potential development of a downtown entertainment and sports center.

Contact: John Dangberg, Assistant City Manager, (916) 808-1222, City Manager's Office

Presenter: John Dangberg, Assistant City Manager, (916) 808-1222, City Manager's Office

Department: City Manager

Attachments:

1-Description/Analysis

2-Principles

3-Resolution

City Attorney Review

Approved as to Form

Matthew Ruyak-Via email Mon 2/25/2013 1:46 PM

Approvals/Acknowledgements

Department Director or Designee: Via email Mon 2/25/2013 1:40 PM

James Sanchez, City Attorney

Shirley Concolino, City Clerk
John F. Shirey, City Manager

Russell Fehr, City Treasurer

Description/Analysis

In mid-January 2013, reports surfaced that a Seattle-based group was pursuing the acquisition of the controlling interest in the Sacramento Kings, with the purpose of relocating the team to Seattle for the 2013-14 basketball season. These reports were subsequently confirmed by statements from the National Basketball Association (NBA). Under the NBA's Constitution and Bylaws, any team seeking to relocate to a new market area must obtain approval by the NBA Board of Governors, a body constituted of the league's team owners. NBA officials recently confirmed that an application for relocation had been received by the NBA and that the NBA Board of Governors will be taking up the issue at its annual meeting scheduled for April 18-19, 2013. Additionally, the acquisition of a team must be approved by the NBA Board of Governors. We have been advised that the NBA will consider both the acquisition and relocation matters at the April meeting.

Also in January, Mayor Johnson attempted to identify potential qualified buyer(s) to prepare a competitive offer to purchase the team and commit to keeping the team in Sacramento long-term. This competitive local offer would be submitted to the NBA in an effort to keep the team in Sacramento with a viable new ownership group. A new Sacramento-based ownership group will need to provide a plan to develop and finance a new venue since the NBA has indicated the current arena does not meet the long-term needs of the team or the league. The aging arena also does not meet the needs of many entertainment events. Thus, it is critical that any submission to the NBA must be accompanied by a plan to replace the existing arena. The financing and development of a new arena will require a public-private partnership mainly due to the limited size of the Sacramento regional media market and corporate base. Although several teams in large markets have privately financed multi-purpose facilities, a privately financed facility in Sacramento would not be economically viable given the limitations of the Sacramento market.

In 2012, the City in partnership with the NBA and private interests developed a financing plan for a new City-owned arena in the Downtown Railyards. That plan included financial participation by the City derived from leveraging the City's parking assets, the sale of identified land assets, and other sources (Master Owner Participation Agreement, etc.). The plan identified revenue streams to backfill any City General Fund losses from the privatization (or monetization) of the City's parking enterprise. The plan also addressed the existing lease-revenue bond financing (loan) with the Kings which would have been repaid and subsequently refinanced with adequate security and collateral.

It should be recognized that the 2012 structure, and all its detail, will likely change in this scenario. New owners of the team will likely expect different business arrangements and terms to account for potential differences in proposed approach. Potential differences could include: a) a project location other than the Railyards; b) less development risk exposure to the City for design, construction and cost control as a result of the new owners potentially taking the lead in development; and c) ancillary real estate development opportunities in addition to an arena or other elements that bring measurable economic benefits and returns to the City General Fund and the developer. These are just a few examples of the many possible differences, none of which can be quantified until we engage in formal discussions.

On February 19, 2013, the City Manager advised the City Council that before commencing formal negotiations for a public-private partnership, he would seek Council authorization to do so under a set of Council-approved guiding principles. The City Manager's Office and the City Attorney's Office have met weekly over the past several weeks with the Council's ad hoc committee to discuss the entertainment and sports center. The concept of adopting guiding principles was raised and discussed early by the ad hoc committee. The "Principles for the Finance and Development of a New Entertainment and Sports Center" attached to this report are derived from those discussions and input from staff.

Should the City Council authorize the City Manager to proceed with negotiations, additional due diligence, preparation of preliminary terms for subsequent Council consideration, and the formation of a specialized team of professionals to maximize the City's benefits and protect its interests are all required. These persons will assist with due diligence, feasibility analysis, risk analysis and negotiations. At this initial stage there are two critical professional services needed including:

Entertainment and Sports Facility and Finance Advisor: An industry expert in the operation of sports franchises, entertainment and sports facilities, league dynamics, facility finance, and municipal debt. The advisor would assist the City in due diligence, finance structure development, and negotiations for the crafting of preliminary terms of a public-private partnership. Barrett Sports Group (BSG) is currently under contract with the City. Staff recommends amending the exiting contract with BSG for additional services through May 2013.

Entertainment and Sports Facility Transaction Counsel: An attorney with expertise in the field of entertainment and sports facilities transaction agreement structure and documentation. The transaction attorney would participate in key negotiations and assist the City Attorney in the review of terms and drafting of legal agreements for predevelopment, development, lease and operating agreements, etc. The City Attorney would select the transaction counsel.

Separately, the City has begun the reevaluation of its parking assets. A contract with Walker Parking Consultants has been executed and their due diligence work is underway. In addition, the City Treasurer is conferring with investment bankers in the City investment banking pool that have specific expertise in the area of parking asset monetization.

Staff will continue to coordinate with the ad hoc committee during the development of the preliminary terms. The preliminary terms will be presented to the City Council for approval prior to the April NBA Board of Governors meeting.

Economic Impact: Fostering economic development, preserving jobs, reinvigorating the City's downtown core, and providing for the economic reuse of the Natomas arena site are anticipated outcomes of these efforts.

Environmental Considerations: The recommendations in this report involve statements of policy and administrative activity only, and do not constitute a project under CEQA.

Sustainability Considerations: None.

Commission/Committee Action: None.

Rationale for Recommendation: This recommendation is consistent with the February 19, 2013 City Council Resolution 2013-0048 in support of keeping the Sacramento Kings in the City of Sacramento.

Financial Considerations: The budget for consultant services identified in this report through May 2013 is \$150,000, as follows: Barrett Sports Group \$90,000; Transaction Counsel \$50,000; and contingency \$10,000. The funding source for these services will come from the General Fund Administrative Contingency and will be transferred to the City Manager's Office.

Emerging Small Business Development (ESBD): Not applicable at this time.

Principles for the Finance and Development of a New Entertainment and Sports Center (ESC)

The driving forces behind this effort are: reviving the region's core, developing new and distinctive civic amenities, generating economic growth and jobs, and ensuring that the region has the caliber of entertainment and cultural options it deserves. In striving to achieve these community objectives the City will be guided by the following principles:

Protect the Taxpayer

No new or increased taxes will be considered for the financing of the ESC. Those who use or directly benefit from the ESC may be asked to contribute through ticket surcharges or benefit assessments.

Retire the Existing City Loan to the Kings

The existing City lease-revenue bond financing (loan) to the Kings must be retired. Any refinancing of the loan must be fully secured and collateralized to minimize the risk to the City.

New Entertainment and Sports Center Must be Located Downtown

To achieve the greatest community benefit, the new ESC must be located downtown and provide for further economic development opportunity. The City and team owners will agree on a location that best meets the interests and goals of the City and stakeholders.

Long-Term Commitment to Keep the Kings in Sacramento

In exchange for the City's financial contributions there must be a secure, long-term commitment to keep the Kings in Sacramento.

City Will Consider Investing Net Value of its Parking, Land and Other Assets

Consistent with the 2012 financing plan and terms the City will consider investing the net value of its parking, land and other assets. Best practices for the monetization of the parking assets will be utilized to provide the greatest value to the City, its businesses and customers, with the shortest possible term while providing the greatest support for the development of the ESC. Any losses to the General Fund that result from parking monetization must be backfilled by new and reliable revenues. In consideration of the City's financial contribution, the City will own the new ESC.

Public-Private Partnership

The project must be a true public-private partnership where both the City and the team share in the investment and returns of a new entertainment and sports center.

Natomas Arena Site Economic Reuse

The economic reuse of the existing arena site in Natomas is a critical element in defining success.

RESOLUTION NO.

Adopted by the Sacramento City Council

FUNDING DUE DILIGENCE AND NEGOTIATION OF PRELIMINARY TERMS FOR POTENTIAL DEVELOPMENT OF A DOWNTOWN ENTERTAINMENT AND SPORTS CENTER

BACKGROUND

- A. In mid-January 2013, reports surfaced that a Seattle-based group was pursuing the acquisition of the controlling interest in the Sacramento Kings, with the purpose of relocating the team to Seattle for the 2013-14 basketball season.
- B. The National Basketball Association (NBA) Board of Governors, a body constituted of the league's team owners, has confirmed it will be taking up the issue at their annual meeting scheduled for April 18-19, 2013.
- C. Also in January 2013, Mayor Johnson attempted to identify potential qualified buyer(s) to prepare a competitive offer to purchase the team and commit to keeping the team in Sacramento long-term.
- D. A new Sacramento-based ownership group will need to provide a plan to develop and finance a new venue because the current arena does not meet the long-term needs of the team or NBA.
- E. Additional due diligence, preparation of preliminary terms for subsequent Council consideration, and the formation of a specialized team of professionals to maximize the City's benefits and protect its interests are required.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1: The City Manager is authorized to transfer \$150,000 from the General Fund administrative contingency to the City Manager's Office budget to fund professional and legal services for due diligence and negotiation of preliminary terms for the potential development of a downtown entertainment and sports center.