

IMPACT STATEMENT

Legislation title: Authorize a non-binding term sheet with Peregrine Sports LLC for a proposed expansion of Providence Park (Resolution)

Contact name: Susan Hartnett or Karl Lisle

Contact phone: 503 823 6958 or 503 823 5876

Presenter names: Susan Hartnett and Tom Rinehart

Purpose of proposed legislation and background information:

This resolution approves the Proposed Transaction Terms for Expansion of Stadium as proposed in Exhibit A.

On May 10, 2017, Council adopted Resolution No. 37286 which declared the City's support for Peregrine's proposal and directed appropriate bureaus to work on the proposed expansion with Peregrine Sports and their representatives cooperatively and consistent with City processes and procedures.

The financial and operational terms outlined in Exhibit A allow Peregrine Sports, LLC (Peregrine) to undertake design and construction work associated with the proposed \$50 million stadium expansion. The design and construction of the expansion will be 100% privately financed and add between 3,000 and 4,000 new seats to the stadium.

While the terms outlined in Exhibit A are non-binding, they will guide the drafting of definitive legal documents for City Council review and adoption prior to the start of construction, anticipated in Fall 2017.

Financial and budgetary impacts:

The terms contained in Exhibit A describe the financial component of the stadium expansion as well as other elements of the proposal. These terms reflect Peregrine's commitment to privately finance the full design and construction cost of the project, estimated at \$50 million, and to pay any cost overruns. The City will continue to own the entire facility, including the expansion. The value of the facility will be increased through the construction of the project.

Under the terms of the 2010 Stadium Operating Agreement (SOA), Peregrine is obligated during the first seven (7) Operating Years to pay to the City seven (7) percent of the ticket revenue from stadium events and an annual license fee. Beginning in Operating Year eight (8) (2018), Peregrine's payment obligations change such that no license payment is due and only Surplus (any amount over a specified threshold) ticket revenue is owed to the City. This change in financial obligations occurs so that Peregrine can recoup their contribution (\$19.1 million) to the 2010 stadium renovation project. To help offset the cost of the proposed expansion project, Exhibit A includes granting to Peregrine two separate, limited-term exemptions on Surplus ticket revenue for both the existing stadium seats as well as the new seats to be constructed.

The first is an exemption on Surplus ticket revenue owed to the City from sales of tickets for the new seats added through the expansion project. This exemption is described in Section 3.2 of Exhibit A. It is an exemption of revenue that will not be generated without construction of the project. This exemption begins on the date when the new seats open (anticipated to be either in 2019 or 2020) and continues until the end of 2025.

The second is an exemption on Surplus ticket revenue owed to the City from sales of tickets for existing seats in the stadium. This exemption is described in Section 3.3 of Exhibit A. It is an exemption from payment of an existing revenue stream to the City. This exemption begins in 2018, and continues through 2021 or 2022, depending on when the expansion opens.

Regardless of whether the expansion opens in 2019 or 2020, this arrangement results in a comparable estimated amount of total forgone revenue to the City from the two exemptions. The actual value of the two exemptions on the City's share of ticket revenue will depend on market conditions, team performance, the number of additional events that are held in the stadium, and other factors, but it is estimated to be worth between \$3.7 and \$5.1 million between 2018 and 2025.

This two-part exemption is a revision of an earlier proposal for a simple ten (10) year exemption on Surplus ticket revenue from only the new seats, and results in a comparable estimated amount of forgone revenue to the City, but over a shorter time period. After 2025, Surplus ticket revenues from all seats will be paid to the City per the terms of the SOA. This is beneficial for the City as it provides more revenue to the Spectator Venues and Visitor Activities Fund beginning in 2026. As the final debt payments on the 2010 stadium renovations are due in 2026 and 2027, having additional income to the fund in those years will help protect the City's General Fund from exposure to debt obligations in excess of the Spectator Venues and Visitor Activities Fund's resources.

While Peregrine is financing the entire design and construction cost of the expansion, the City will incur some costs associated with this work. These include:

- Legal counsel for assistance with negotiation and drafting legal documents/amendments (current contract is for up to \$100,000)
- Owners' representative team to provide design and construction oversight (current contract is for up to \$500,000)

In addition, under the terms of the SOA, the City will incur increased costs associated with the ongoing operation of the expanded stadium. These include:

- Increased property insurance premiums. The increased square footage of the expansion is anticipated to result in an increase in the City's insurance premium of between \$32,000 and \$38,000 per year upon opening. With escalation, this results in an increased cost to the City of roughly \$900,000 over the life of the SOA (through 2038).
- Increased repair and replacement costs. The increased costs to the City for systems repair and replacement obligations per the terms of the SOA are anticipated to be limited in the early years of operating the expansion, but as the structure ages and more components require replacement, that cost will increase. The City estimates these costs associated

with the expansion project at roughly \$1.7 million over the life of the SOA (through 2038).

Factoring in the increased City costs discussed above, and the estimated value of the additional revenue that will flow to the City after the Surplus ticket revenue exemption periods end, the net positive impact of this expansion on the Spectator Venues and Visitor Activities Fund is projected to be an increase of between \$2 and \$5 million over the life of the SOA (through 2038). This range reflects the conservative approach used by the City for projections, and the fact that the ultimate financial performance of the stadium is dependent on a number of external factors including but not limited to market conditions, team performance, labor relations, and the number of additional events that are held in the stadium. As with any financial projection, the farther the projection looks into the future, the less reliable the result becomes.

Spectator Venues and Visitor Activities Fund projections show sufficient resources through 2025 to accommodate the reduced revenue from the proposed exemptions on Surplus ticket revenue at the stadium. The majority of the fund's resources continue to be generated by Rose Quarter operations.

Community impacts and community involvement:

This expansion of Providence Park will provide additional capacity and help Peregrine Sports address a significant unmet demand for tickets to Portland Timbers games; the current waiting list for season tickets is approximately 13,000.

Providence Park is subject to Zoning Code requirements for a Good Neighbor Agreement (GNA) as defined in City Code 33.510.115. The current GNA, dated February 17, 2010, calls for review and update of the GNA if Additional Construction, as defined in the GNA, occurs that is in excess of \$500,000. The GNA Oversight Committee began meeting in March 2017 in anticipation that an expansion might occur, and expects to make recommendations on updating the required construction mitigation plan and community outreach plan prior to the beginning of construction. The Oversight Committee will also determine if revisions to the Good Neighbor Agreement and Comprehensive Transportation Management Plan are needed and make recommendation on those prior to City Council consideration of them.

The stadium expansion is subject to a land use review under Design Review, which began on May 11, 2017 with a Design Advice Request before the Portland Design Commission. Review and approval of the Major Encroachment by the City Council is also required.

Budgetary Impact Worksheet

Does this action change appropriations?

- ☐ YES: Please complete the information below.
☒ NO: Skip this section

Fund	Fund Center	Commitment Item	Functional Area	Funded Program	Grant	Sponsored Program	Amount