

Portland, Oregon

FINANCIAL IMPACT and PUBLIC INVOLVEMENT STATEMENT For Council Action Items

(Deliver original to Financial Planning Division. Retain copy.)

1. Name of Initiator – Betsy Ames		2. Telephone No. 503 823-4269	3. Bureau/Office/Dept. OMF- CAO-Spectator Facilities
4a. To be filed (date): August 22, 2012	4b. Calendar (Check One) Regular Consent 4/5ths <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		5. Date Submitted to Commissioner's office and FPD Budget Analyst: August 14, 2012
6a. Financial Impact Section: <input checked="" type="checkbox"/> Financial impact section completed		6b. Public Involvement Section: <input checked="" type="checkbox"/> Public involvement section completed	

1) Legislation Title:

Authorize the Chief Administrative Officer to negotiate an Operating Agreement for the Veterans Memorial Coliseum with the Portland Development Commission and to develop a separate agreement formalizing PDC's lead role in the redevelopment of the Rose Quarter. (Resolution)

2) Purpose of the Proposed Legislation:

The City, PDC, Portland Arena Management (PAM) and the Portland Winterhawks (PWH) have been negotiating a Redevelopment Agreement and associated agreements for the renovations of the Veterans Memorial Coliseum (VMC). The City of Portland owns the VMC (and other property in the Rose Quarter) and PAM operates the VMC under an Operating Agreement with the City (City/PAM OA) that will be renewed for another five or ten years with the closing of the Redevelopment Agreement.

As a condition to providing \$10 million to the renovation project, PWH has requested the right to play in the VMC for 20 years. The City cannot accommodate the potential risk to the Spectator Facilities Fund and the General Fund that would result from agreeing to a term of longer than ten years for PWH's license to play at the VMC.

In order to provide assurances to PWH that they will be able to play in the VMC for the next twenty years, the PDC has agreed to assume responsibility for the operations of the VMC in the event that PAM does not elect to continue as the operator for the VMC beyond June 2023. PDC will negotiate a sublicense for PWH to play at the VMC during the period 2023-2032. PDC will have full responsibility for any obligations to the Winterhawks post 2023. The City will have no obligations to keep the facility open for the Winterhawks or other users.

The Chief Administrative Officer for the City and the Executive Director of PDC negotiated terms for an agreement between the City and PDC in the event that PAM does not continue as the operator in 2023. In negotiating the Letter of Agreement (LOA) and Binding Term Sheet attached to the Resolution, both parties agreed to seek formal approval of the Binding Term Sheet from their respective governing bodies – the PDC Board and the City Council. Council

approval of the Resolution and Binding Term Sheet will provide OMF the direction needed to negotiate an Operating Agreement with PDC for 2023-2033.

The City/PDC Operating Agreement (City/PDC OA) will be based substantially on the existing City/PAM Operating Agreement as amended by the Second Amendment to that agreement (City/PAM OA) and as modified by the terms of the LOA and Binding Term Sheet. On August 15, the PDC Board authorized the PDC Executive Director to conduct negotiations with City "using the attached VMC Term Sheet as the basis of the negotiations" noting that "no agreement concerning the operation of the Veterans Memorial Coliseum . . . shall be binding unless and until [the PDC] Board by subsequent action approves a final City/PDC OA." The same applies for the City Council which may provide additional direction modifying what's included in the Term Sheet to be used as the basis for negotiations pending consideration of a final agreement. That direction could change the financial and community impacts of the subsequent agreement.

In addition, the Mayor's office, OMF, and PDC agreed that OMF and PDC should develop a separate agreement formalizing PDC's lead role in the redevelopment of the Rose Quarter. The Resolution provides direction to the CAO to do so, with this separate agreement providing PDC with the same rights to development of City-owned properties in the Rose Quarter as were held by PAM under the Fifth Amendment to the Development Agreement.

3) Which area(s) of the city are affected by this Council item? (Check all that apply—areas are based on formal neighborhood coalition boundaries)?

- | | | | |
|---|------------------------------------|------------------------------------|--------------------------------|
| <input type="checkbox"/> City-wide/Regional | <input type="checkbox"/> Northeast | <input type="checkbox"/> Northwest | <input type="checkbox"/> North |
| <input type="checkbox"/> Central Northeast | <input type="checkbox"/> Southeast | <input type="checkbox"/> Southwest | <input type="checkbox"/> East |
| <input checked="" type="checkbox"/> Central City | | | |
| <input checked="" type="checkbox"/> Internal City Government Services | | | |

FINANCIAL IMPACT

4) Revenue: Will this legislation generate or reduce current or future revenue coming to the City? If so, by how much? If so, please identify the source.

This Resolution is one in a series of Resolutions and Ordinances that have and will come to the City Council in anticipation of a \$31.5 Million redevelopment project for the Veterans Memorial Coliseum. The City Council is committed to keeping the VMC in operations and the combined investment in the facility by the PDC, City, PWH, and PAM (through its management of the renovation project) will make the VMC a more viable and valuable asset for the City of Portland and the community. Without addressing long-term capital needs at the VMC via significant investment, continuing to keep the building open and operational will produce decreased revenues, increased costs of operating, repair and maintenance, and increased risk to the Spectator Facilities Fund and General Fund.

The description below of revenues and in the next section on expenditures is intended to comment solely on the potential financial impacts of this Resolution and does not reflect the full financial impact of the full Redevelopment Agreement and associated documents that will be coming to Council later this year.

Per the terms of the Binding Term Sheet, the City/PDC OA, if effective in 2023 will have the following potential impacts on revenue:

- Allowing PDC to accommodate a 20-year term for the PWH to play at the VMC is expected to ensure that the PWH will continue to commit \$10MM in private funding towards the VMC renovation project. This investment will provide for significant improvements to the building and will support the potential leveraging of additional resources from Historic Tax Credits.
- As part of the current set of agreements, the City has negotiated a Revenue Sharing Agreement (RSA) with the PWH. The proposed terms of that agreement provide 100% of the revenue for user fees and parking revenue for PWH games beyond an agreed upon baseline, and 50% of user fees and parking revenue for “Other Events” at the VMC beyond an agreed upon baseline to the Winterhawks. In addition, PWH would receive 20% of the operating profits from the VMC per the RSA (reducing the City’s portion from a total of 60% to a total of 40%) of operating profits). As part of the City/PDC OA, PDC would receive the PWH share of the revenues after 2023. The impact to the City is minimal as the baseline VMC revenues will continue to accrue to the City’s Spectator Facilities Fund (SFF) and the building has not generated operating profits for years. The projections increase the baseline by 3% for the User Fees and 3.5% for the parking revenue each year.
- PDC has asked the Winterhawks to agree to play all games at the VMC. This could impact SFF revenues as typically the 8-10 games per year played at the Rose Garden Arena (RGA) have higher attendance and resulting higher user fees and parking revenues than games played at the VMC. There are also suite fees collected at the RGA which are not applicable at the VMC. An estimate of reduced revenue cannot be accurately predicted as some of the higher attendance at the RGA might be a result of promotions (e.g. Bear Toss) and opposing teams (e.g. Seattle) that would draw larger crowds regardless of venue. However, revenue generating capacity related to PWH games at the VMC is comparatively lower than capacity at the RGA.
- PDC has asked for the right to schedule only PWH games at the VMC if both the City and PDC agree it is not financially feasible to continue with those other non-PWH events. While some of these events (such as the Rose Festival Parade, HS and PCC graduations, etc.) may not raise significant revenue directly for the VMC, they can generate parking revenue at the City-owned garages which goes to the SFF. The VMC also typically hosts 3-5 concerts per year which historically has provided approximately \$80K in annual user and parking fees for the Spectator Facilities Fund.
- The separate agreement to formalize PDC’s lead role in the redevelopment of the Rose Quarter should result in a net increase in revenue for the City of Portland if PDC is successful in attracting new investment to the Rose Quarter. The Resolution specifically calls for this agreement to provide the same rights as the Development Rights that PAM held for the Rose Quarter. Those Development Rights provided for the City to receive revenues from the ground lease for properties owned by the City. The ground lease rent

was designated as the fair market rental value for the highest and best use of the area. The Development Rights also protected the existing assets and functions of the Rose Quarter (i.e. retaining parking and parking revenues; not adversely affecting operations of the RGA or VMC, etc.) and required City Council approval of any development proposals and the ground lease terms.

5) Expense: What are the costs to the City related to this legislation? What is the source of funding for the expense? *(Please include costs in the current fiscal year as well as costs in future years. If the action is related to a grant or contract please include the local contribution or match required. If there is a project estimate, please identify the level of confidence.)*

The current Operating Agreement with Portland Arena Management (City/PAM OA) requires PAM to cover all Operating Losses at the VMC. Operating Losses have averaged ~\$264,000 annually over the past three years. Under the City/PAM OA, the City has not had to pay for any of those losses.

As part of the negotiations for the Binding Term Sheet, the City and PDC negotiated that the City would cover the first \$375,000 of Operating Losses on an annual basis beginning in FY2023-24. These funds, if needed, will come from the Spectator Facilities Fund which is supported by User Fees and Parking Revenues, primarily from the Rose Quarter parking garages and the Rose Garden Arena.

In addition, as part of the current set of agreements, and continuing on the City/PDC OA, the City would have an annual obligation for Repairs, Capital Improvements, or other increased Operating Expenses arising out of Deferred CI/SR. The original \$250,000 obligation will rise by CPI-U over the period 2013-2023, and then be reset to \$375,000 at the beginning of the City/PDC OA. These funds will also come from the SFF.

The anticipated \$31.5 million investment will address many of the most critical capital repairs at the VMC that have resulted in increased expenditures over the past several years by replacing major systems (e.g. the ice floor, domestic plumbing, etc.) that have historically required significant expenditures for repair and maintenance. The VMC renovation project will not address all the potential capital needs of the VMC identified in earlier studies which suggested a cost of over \$50 million to fully renovate and revitalize the building. Beyond the \$375K identified above, additional funding will likely be needed over the next ten years and over the term of the City/PDC OA for continued capital improvements and/or repairs and maintenance. Funding is expected to be provided by resources of the SFF, to the extent such funds are available.

The City will bear expenses for outside legal counsel to negotiate the City/PDC OA, anticipated at around \$40K. PDC has hired outside legal counsel to negotiate on their behalf for the City/PDC OA and for the PDC/PWH Sublicense agreement.

By agreeing to a the proposed terms of the City/PDC OA, the City is forgoing an opportunity to renegotiate terms of the OA for FY2023-24 based upon economic and market realities at that time. Additionally, implementation of the City/PDC OA will reduce the City's flexibility to influence future uses of the VMC during the term of the City/PDC OA.

6) Staffing Requirements:

- Will any positions be created, eliminated or re-classified in the current year as a result of this legislation? (If new positions are created please include whether they will be part-time, full-time, limited term, or permanent positions. If the position is limited term please indicate the end of the term.)

N/A

- Will positions be created or eliminated in *future years* as a result of this legislation?

N/A

(Complete the following section only if an amendment to the budget is proposed.)

7) Change in Appropriations *(If the accompanying ordinance amends the budget please reflect the dollar amount to be appropriated by this legislation. Include the appropriate cost elements that are to be loaded by accounting. Indicate "new" in Fund Center column if new center needs to be created. Use additional space if needed.)*

Changes in appropriations for the professional service costs associated with negotiating this operating agreement with PDC will be submitted in the Fall 2012 Bump.

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

[Proceed to Public Involvement Section — REQUIRED as of July 1, 2011]

PUBLIC INVOLVEMENT

8) Was public involvement included in the development of this Council item (e.g. ordinance, resolution, or report)? Please check the appropriate box below:

☐ YES: Please proceed to Question #9.

☒ NO: Please, explain why below; and proceed to Question #10.

No specific public participation was conducted in drafting the City/PDC Operating Agreement Term Sheet as these have been part of the ongoing negotiations related to the Redevelopment Agreement for the VMC. Some of the terms could have impacts for the community:

- PDC has asked for the right to schedule only PWH games at the VMC if both the City and PDC agree it is not financially feasible to continue with those other non-PWH events. Some of these events (such as the Rose Festival Parade, HS and PCC graduations, OSAA sporting events, etc.) have longstanding history in the VMC and the community may expect these to continue.
- In addition, the current City/PAM OA requires the Operator to make the facility available to ten "Community Events" annually, charging only the direct costs for these. In the past, these have included the following events: Homeless Connect, Hands On Serve-a-Thon; Holiday Toy Drive.

9) If "YES," please answer the following questions:

a) What impacts are anticipated in the community from this proposed Council item?

b) Which community and business groups, under-represented groups, organizations, external government entities, and other interested parties were involved in this effort, and when and how were they involved?


c) How did public involvement shape the outcome of this Council item?

d) Who designed and implemented the public involvement related to this Council item?

e) Primary contact for more information on this public involvement process (name, title, phone, email):

10) Is any future public involvement anticipated or necessary for this Council item? Please describe why or why not.

The public will be able to testify regarding the City/PDC Operating Agreement when it is brought forward to Council later this fall.


BUREAU DIRECTOR Jack Graham, Chief Administrative Officer



CITY OF PORTLAND
OFFICE OF MANAGEMENT AND FINANCE

Sam Adams, Mayor
Jack D. Graham, Chief Administrative Officer
1120 SW Fifth Ave., Suite 1250
Portland, Oregon 97204-1912
(503) 823-5288
FAX (503) 823-5384
TTY (503) 823-6868
36950

DATE: August 16, 2012
TO: Mayor Sam Adams

FROM: Jack D. Graham, Chief Administrative Officer *JDG*

**FOR MAYOR'S OFFICE
USE ONLY**

Reviewed by Bureau Liaison _____

TITLE: Authorize the Chief Administrative Officer to negotiate an Operating Agreement for the Veterans Memorial Coliseum with the Portland Development Commission and to develop a separate agreement formalizing PDC's lead role in the redevelopment of the Rose Quarter. (Resolution)

1. **INTENDED THURSDAY FILING DATE:** August 16, 2012
2. **REQUESTED COUNCIL AGENDA DATE:** August 22, 2012
3. **CONTACT NAME & NUMBER:** Betsy Ames, 503.823.4269
4. **PLACE ON:** ☐ **CONSENT** ☒ **REGULAR** ☐ **TIME CERTAIN @ 2:00**
5. **BUDGET IMPACT STATEMENT ATTACHED:** ☒ **Y** ☐ **N**
6. **(2) ORIGINAL COPIES OF CONTRACTS APPROVED AS TO FORM BY CITY ATTORNEY ATTACHED:** ☐ **Yes** ☐ **No** ☒ **N/A**

7. BACKGROUND/ANALYSIS

The City, PDC, Portland Arena Management (PAM) and the Portland Winterhawks (PWH) have been negotiating a Redevelopment Agreement and associated agreements for the renovations of the Veterans Memorial Coliseum (VMC). The City of Portland owns the VMC (and other property in the Rose Quarter) and PAM operates the VMC under an existing Operating Agreement with the City (City/PAM OA) that will be renewed for another five or ten years concurrent with the closing of the Redevelopment Agreement.

As a condition to providing \$10 million to the VMC renovation project, PWH has requested the right to play in the VMC for 20 years. Due to the scheduled end of the existing Operating Agreement provisions (no later than FY2022-23) and the end of the ground lease with PAM for the Rose Garden Arena (FY2024-25), the City cannot accommodate the potential risk to the Spectator Facilities Fund and the General Fund that would result from agreeing to a term of longer than ten years for PWH's license to play at the VMC.

In order to provide assurances to PWH that they will be able to play in the VMC for the next twenty years, the PDC has agreed to assume responsibility for the operations of the VMC in the event that PAM does not elect to continue as the operator for the VMC beyond June 2023. The City and PDC will negotiate a City/PDC Operating Agreement for use in the event PAM does not continue as operator. PDC will negotiate a sublicense for PWH to play at the VMC during the period 2023-2032. PDC will have full responsibility for any obligations related to the Winterhawks sublicense beginning in 2023. The City will

An Equal Opportunity Employer

To help ensure equal access to programs, services and activities, the Office of Management & Finance will reasonably modify policies/procedures and provide auxiliary aids/services to persons with disabilities upon request.

have no obligations to keep VMC open for the Winterhawks or other users beyond the terms of the Operating Agreement with PDC.

FINANCIAL IMPACT

OMF and PDC, with participation from the Mayor's office, negotiated terms for an agreement between the City and PDC in the event that PAM does not continue as the VMC operator in 2023. The City/PDC Operating Agreement (City/PDC OA) will be based substantially on the existing City/PAM Operating Agreement as amended by the Second Amendment to that agreement (City/PAM OA) and as modified by the terms of the Letter of Agreement (LOA) and Binding Term Sheet between the Chief Administrative Officer and the PDC Executive Director, dated July 18, 2012. Proposed modifications to the existing Operating Agreement include the following items with financial impacts – discussed in more detail in the Financial Impact and Public Involvement Statement:

Per the terms of the Binding Term Sheet, the City/PDC OA, if effective in 2023, will have the following potential impacts on revenue:

- Allowing PDC to accommodate a 20-year term for the PWH to play at the VMC is expected to ensure that the PWH will continue to commit \$10MM in private funding towards the VMC renovation project.
- With the City/PDC OA, the City would share VMC revenues and profits with PDC. The impact to the City is minimal as the baseline VMC revenues and a share of the profits will continue to accrue to the City's Spectator Facilities Fund (SFF).
- Changes to the mix of events scheduled at the VMC as allowed under the Binding Term Sheet could have a negative impact on user fees and parking revenue received by the SFF.
- The City/PDC OA terms include the City covering operating losses up to \$375,000/year. This could result in \$3.75M of expense over the course of the 10-year agreement. To the extent PDC is able to make the building profitable, the City would not have to pay these amounts.
- The repair and maintenance requirements remain similar under the City/PDC OA to current and proposed terms under the City/PAM OA. Additional expenditures may be required to keep the building operational for the additional ten years.
- In addition, the Mayor's office, OMF, and PDC agreed that OMF and PDC should develop a separate agreement formalizing PDC's lead role in the redevelopment of the Rose Quarter and provides direction that this should be based on the Development Rights that PAM held under the original Development Agreement. This could result in a net increase in revenue for the City of Portland if PDC is successful in attracting new investment to the Rose Quarter.

8. RECOMMENDATION/ACTION REQUESTED

OMF recommends that the City Council approve the Resolution and provide direction to OMF on the terms of the City/PDC OA and the separate agreement on Development Rights.