



# Spectrum Center & Hornets

## LEASE EXTENSION & PRACTICE FACILITY UPDATE

FEBRUARY 26, 2024

## Update Outline

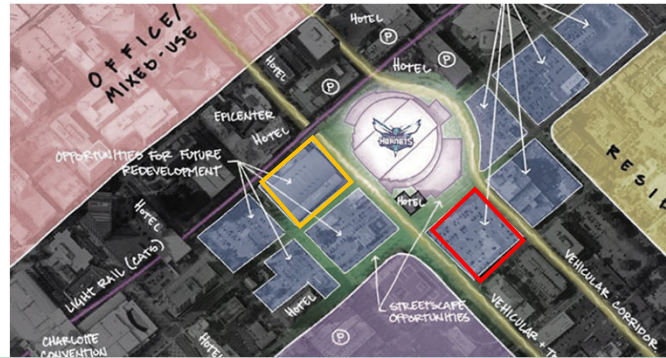
1. Review 2022 Council Approval
2. 2022 Agreement
3. New 2024 Proposal
4. Proposal Comparison
5. Staff Recommendation



## 2022 Council Decision

### ◀ Approved

- \$215M arena improvements
  - Funded from Tourism Fund
- \$60M Performance Enhancement Facility (PEC)
  - 2 possible locations
    - Option 1 - CTC redevelopment or
    - Option 2 - 50% gravel lot
  - Funded from sponsorship and branding revenues from a newly formed district
- MWSBE commitment
  - MBE 16% and SBE 14%



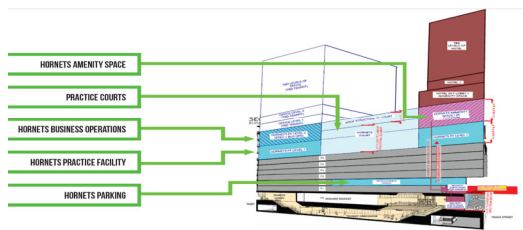
## 2022 Agreements

- ◀ Total \$275M Investment
  - \$215M for Arena improvements
  - \$60M for PEC (sponsorship / Branding revenues)
- ◀ City responsible for PEC construction delays
  - Estimated cost \$3-9M
- ◀ Parking to be made available at the PEC for Hornets and evening events
  - 100 spaces for players / ops
  - 250 spaces for evening events
- ◀ PEC location – 2 options (CTC or ½ gravel lot)
- ◀ City owns PEC / HSE leases
- ◀ City / HSE share PEC naming rights (approx. \$5M total value)

## PEC – 2022 Options

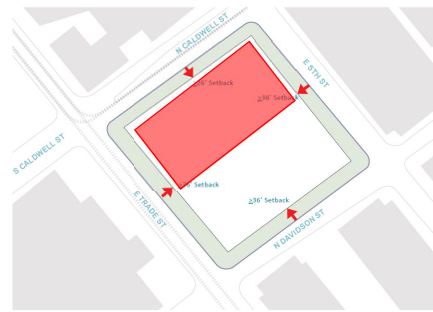
### ◀ Option A (CTC)

- \$60M towards PEC
- PEC incorporated into the mixed-use transit development
- 78,500 SF – practice, offices, player support
- 350 parking spaces
- Required delivery late 2027



### ◀ Option B (gravel lot)

- \$60M towards PEC
- Reserve 50% lot for PEC
- First right on remainder of lot
- Same size and parking requirements as CTC



## New Ownership /New Approach

### ◀ New ownership presented new proposal *December '23*

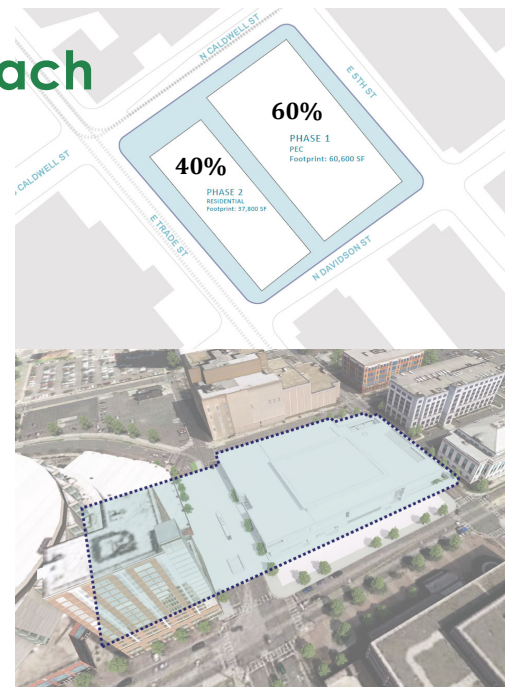
- Larger vision,
- Larger private investment,
- Desire to control development for earlier delivery

### ◀ Arena

- Request to shift city money from PEC to NEW work in the arena

### ◀ PEC

- Request to pivot to 60% of the gravel lot
- Build larger facility
- Deliver PEC earlier
- Expedite new additional development on remainder of the lot
- Keep naming right revenues



# Proposal Comparison

		2022	2024	
City Investment	Arena	\$215M	\$245M	\$173M obligated
	PEC	\$60M	\$30M	
<b>Total City Investment</b>		<b>\$275M</b>	<b>\$275M</b>	
Hornets Investment	Arena	Cost Overrun	Cost Overrun	
	PEC	\$0	\$70-100M	
<b>Total Hornets Investment</b>		<b>Cost Overrun</b>	<b>\$70M-100M+</b>	
<b>Total Project Investment</b>		<b>\$275M</b>	<b>\$345-\$375M+</b>	
Gravel Lot Development Rights		50% for PEC	60% for PEC 40% for future development	
Estimated Tax Revenue Generated for City/County		\$0	\$18M	Presumes PEC and hotel development on lot

- Modifications between 2022 PEC term sheet and 2024 PEC proposal:
  - City is relieved of PEC parking requirements, PEC maintenance/repairs and PEC cost overruns/late fees.
  - City gains 250 parking spaces for city employee use

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- City provides development rights for additional 50% gravel lot
- City does not share in PEC naming rights revenue

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- In total, City nets approximately \$5M value gain between 2022 and 2024 proposals

# New 2024 Proposal

## ◀ Funding adjustments

- Tourism Funds \$30M into Arena – new projects
- Potential source for remaining \$30M
  - AOA requires new \$2M annual rent from Hornets for arena.
  - This payment shifts to city portion of lease payment for PEC
- Sponsorship revenue opportunity
  - Still future revenue source - delayed slightly to further other district developments (CTC, Moxy Hotel, Queens Quarter and gravel lot)

## Staff Recommendation

### ◀ Pursue new proposal

- Decrease city investment in PEC and increase city money in city owned asset
- Value of Hornets “give” exceeds value of the gravel lot
- Longer schedule at CTC creates risk for penalties
- Expedites development potential and tax revenue for gravel lot
- More development that can contribute to district vitality

## Proposed Next Steps

- ◀ Council direction to proceed
- ◀ Continued Council discussion
- ◀ Return for Council vote on PEC agreement
- ◀ Simultaneously – Staff and Hornets ownership will continue to draft final documents and architects & team will begin due diligence on gravel lot



## Proposal Comparison

	2022	2024
<b>City Investment Total</b>	<b>\$ 275.00</b>	<b>\$ 275.00</b>
City Investment in Arena	\$ 215.00	\$ 245.00
City Investment in PEC	\$ 60.00	\$ 30.00
<b>Parking requirements</b>		
100 designated for players / Ops	\$ 3.50	\$ -
250 shared for events (50% value)	\$ 4.38	\$ -
Gain 250 spaces - City employee parking	\$ -	\$ (8.80)
<b>Other requirements</b>		
PEC maintenance / repairs - runs with ownership	\$ 5.00	\$ -
Shared PEC naming rights \$		\$ 5.00
Risk of Penalty (50% of \$9M)	\$ 4.50	
<b>Gravel Lot</b>		
additional 10% gravel lot		\$ 3.29
remaining 40% gravel lot		\$ 13.16
<b>Total</b>	<b>\$ 17.38</b>	<b>\$ 12.65</b>
Additional Private Investment		\$ 100.00