



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%



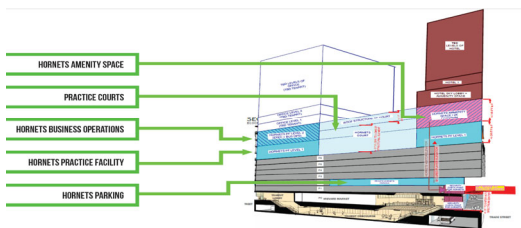
2022 Agreements

- △ 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

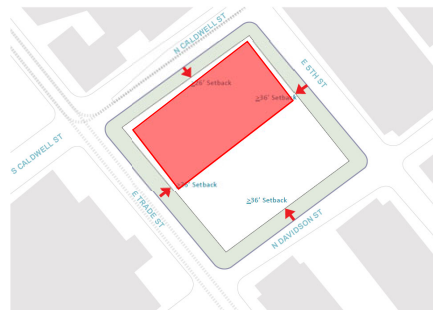
◀ Option A (CTC)

- \$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*

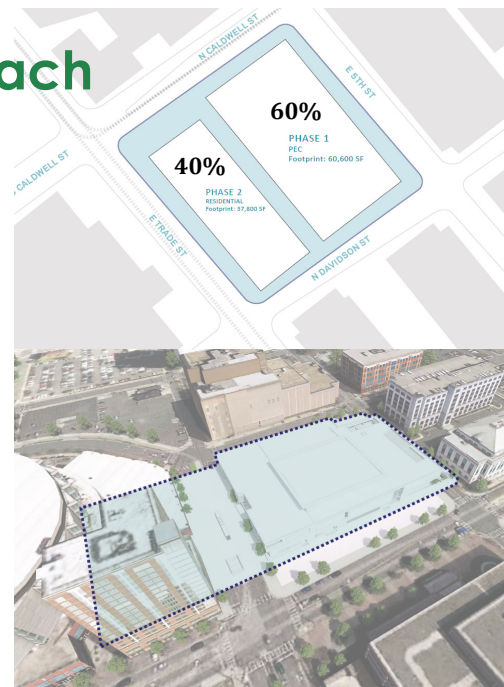
- Larger vision,
- Larger private investment,
- Desire to control development for earlier delivery

◀ 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 | |
| Total City Investment | | \$275M | \$275M | |
| Hornets Investment | Arena | Cost Overrun | Cost Overrun | |
| | PEC | \$0 | \$70-100M | |
| Total Hornets Investment | | Cost Overrun | \$70M-100M+ | |
| Total Project Investment | | \$275M | \$345-\$375M+ | |
| 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

- City provides development rights for additional 50% gravel lot

- City does not share in PEC naming rights revenue

- 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

Questions?

Proposal Comparison

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