



# City of Sacramento City Council

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**Meeting Date:** 9/13/2011

**Report Type:** Staff/Discussion

**Title:** Exclusive Right to Negotiate for the Entertainment and Sports Complex

**Report ID:** 2011-00812

**Location:** District 1

**Recommendation:** Adopt a Resolution authorizing the City Manager or his designee to negotiate an Exclusive Right to Negotiate for the development of an Entertainment and Sports Complex with ICON Venue Group and David Taylor Interests.

**Contact:** Rachel Hazlewood, Senior Project Manager, (916) 808-8645, Economic Development Department

**Presenter:** Rachel Hazlewood, Senior Project Manager, (916) 808-8645, Economic Development Department

**Department:** Economic Development Dept / City Manager's Office

**Division:** Downtown Development

**Dept ID:**

**Attachments:**

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- 1-Description/Analysis
- 2-Background
- 3-Resolution

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**City Attorney Review**

Approved as to Form  
Joseph Cerullo  
9/12/2011 3:00:43 PM

**City Treasurer Review**

Prior Council Financial Policy Approval or  
Outside City Treasurer Scope  
Russell Fehr  
9/8/2011 1:57:41 PM

**Approvals/Acknowledgements**

Department Director or Designee: Jim Rinehart - 9/12/2011 10:24:51 AM

Assistant City Manager: John Dangberg - 9/12/2011 12:01:44 PM



## Description/Analysis

**Issue:** On May 26 2011, the City Council received a proposal from ICON Venue Group and David Taylor Interests (ICON-Taylor) on the Entertainment and Sports Complex (ESC). In the proposal, ICON-Taylor concluded that the ESC could feasibly be built in the Railyards. The City Council then asked staff to conduct a technical review of the ICON-Taylor proposal and report back on its viability within 100 days. That technical review was presented to City Council in Staff Report 2011-00744 on September 13, 2011. Also on September 13, 2011, Barrett Sports Group, in consultation with Think Big Sacramento, presented the City Council with a menu of revenue options for consideration as possible funding sources for the ESC (Staff Report 2011-00790).

ICON-Taylor desires to enter into an Exclusive Right to Negotiate (ERN) with the City for the purpose of negotiating and completing the initial business terms of a public-private-partnership predevelopment agreement for the ESC. An ERN is often used by the City and Redevelopment Agency for large projects involving private participation. It allows negotiations to continue with a single development team while performing necessary due diligence and planning. Staff will return within three weeks to City Council with an ERN for consideration and possible approval.

**Policy Considerations:** The actions contemplated and described in this report are consistent with City goals of job creation and economic development and with the direction provided by City Council at previous sessions.

**Environmental Considerations:** This report concerns activities that are exempt from the California Environmental Quality Act (CEQA) under the CEQA Guidelines (14 Cal. Code Reg. § 15000 et seq.) because they concern only feasibility or planning studies for possible future actions the City Council has not approved, adopted, or funded. These activities will not have any significant effect on the environment and thus do not constitute a "project." (CEQA Guidelines, §15061(b)(3) and §15262.)

**Sustainability:** None at this time.

**Commission/Committee Action:** Not applicable.

**Rationale for Recommendation:** An ERN will allow ICON-Taylor to complete its project proposal, form a development team, and initiate predevelopment activities. An ERN will also give ICON-Taylor sufficient credibility to approach major arena-development companies and attract their equity participation in the project. Finally, it will enable the City, before entering into any long-term relationships, to further assess the capacity of ICON-Taylor to undertake the project.

**Financial Considerations:** The financial considerations of the funding options for the ESC will be examined at the City Council meeting and in the reports presented to City Council. To assist the City with negotiating a predevelopment agreement for

the ESC, outside legal counsel specializing in ESC agreements would be needed as well as the services of a sports finance advisor. Staff will include these expenses, the scope of services, and financial considerations in the report on the ERN that will be presented to Council for its consideration within three weeks.

**Emerging Small Business Development (ESBD):** None at this time.

## BACKGROUND

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On February 8, 2011, from the four teams that had submitted proposals, the City Council selected ICON-Taylor to analyze the feasibility of developing an entertainment-and-sports complex in Sacramento (the ESC). ICON-Taylor is composed of David Taylor Interests, a Sacramento development firm with extensive Sacramento based development experience completing complex projects, and ICON Venue Group, which has had considerable success developing entertainment-and-sports complexes around the country, including directly overseeing the development of 11 arenas and 9 stadiums in the last 10 years. The ICON-Taylor team also includes Populous, a well-regarded sports-architectural firm that has completed more than 1,000 projects with total construction value exceeding \$20 billion, and Turner Construction, a leading builder of arena and stadium projects in North America. ICON-Taylor committed to return to Council in 90 days to report on its analysis at no cost to the City.

On May 26, 2011, ICON-Taylor presented its ESC analysis to the City Council. In the analysis, ICON-Taylor concluded (1) that the ESC could be built on either the Railyards or Natomas sites; (2) that the ESC would meet the needs of the NBA and other event programs; (3) that the cost of the ESC is approximately \$387 million; and (4) that the ESC could be built by early 2015. Council asked staff to conduct a technical review of the ICON-Taylor analysis and report back in the next 100 days.

That technical review was presented to City Council on September 13, 2011. It discusses the myriad issues associated with building the ESC in the Railyards, including issues relating to planning, building, urban design, circulation, parking, roadways, utilities, and reuse of the Natomas arena site. (Staff Report 2011-0744 includes these technical-review reports.) Staff examined the assumptions underlying the ICON-Taylor analysis and identified areas where additional study is needed. A menu of revenue options for consideration as possible funding sources for the ESC was also provided to the City Council on September 13, 2011, by Barrett Sports Group and Think Big Sacramento, a private committee dedicated to the development of the ESC.

On August 23, 2011 the Mayor requested that staff return with a recommendation regarding the selection of ICON-Taylor as the potential developer of the ESC and to enter into an exclusive right to negotiate (ERN) for the purposes of reaching a development agreement.

Staff recommends executing an ERN with ICON-Taylor to begin the process of forming a public-private partnership and to allow the ICON-Taylor to complete its project proposal, form a development team, and initiate predevelopment activities. This recommendation is based upon a number of unique circumstances.

In the typical approach to financing a publically owned entertainment-and-sports facility, the public owner advances funding for preconstruction expenses. A traditional

“developer” would not advance those costs because it has no long term-interest or financial-return potential associated with the publicly owned facility. Some cities hire “fee developers” who specialize in the design and construction of entertainment-and-sports facilities due to the complexity and uniqueness of these facilities. In that case the city pays a fee for the development expertise and also pays for all predevelopment costs. The city thus advances the risk capital, as would a developer of a private project such as an office building.

More recently, a hybrid model has emerged, as demonstrated in the development of the Sprint Center in Kansas City. In that case, an entertainment-facility operator with a long-term agreement to operate the facility was brought into the process at the early stages. Based upon its long-term interest in operating the project, the operator was willing to advance capital to complete predevelopment work.

Given the current challenges with California redevelopment and the constrained municipal budget, the hybrid model is a very attractive arrangement. Such a public-private partnership with both a developer and a qualified facility operator could substantially reduce the predevelopment advances required of the City.

Entering into the ERN will give ICON-Taylor the credibility needed to approach major arena developers and operators and obtain their equity participation in the project. Entering into the ERN will also enable the City to further assess, without the legal obligations of a development agreement, the capacity of ICON-Taylor to undertake a project of this magnitude.

The expected term of the ERN will be 90 days, and the ERN will contain a schedule of performance and objectives to be met by ICON-Taylor. If, at the end of the term, ICON-Taylor has successfully attracted a partner and negotiated terms acceptable to the City, then a predevelopment agreement that outlines the initial terms and obligations of the parties under a public-private partnership would be brought to the City Council for consideration and possible approval.

With the Council’s direction to proceed, staff will return to the City Council in several weeks with an ERN negotiated and drafted by the City Attorney’s Office. To assist the City with negotiating the ESC Predevelopment Agreement, outside counsel who specializes in such agreements would be needed, as well the services of a sports-finance advisor. Staff will include these costs, the scope of services, and other financial considerations in the report submitted for the ERN.

## **RESOLUTION NO. 2011-**

Adopted by the Sacramento City Council

### **AUTHORIZATION TO NEGOTIATE WITH ICON-TAYLOR FOR AN EXCLUSIVE RIGHT TO NEGOTIATE AN AGREEMENT FOR DEVELOPMENT OF AN ENTERTAINMENT AND SPORTS COMPLEX**

#### **BACKGROUND**

- A. The City owns real property in the City of Sacramento that is adjacent to the Union Pacific Rail Depot and the future site of the Sacramento Intermodal Transportation Facility ("Intermodal Facility").
- B. The City desires to investigate the possibility of developing an entertainment-and-sports complex ("ESC") co-located with the Intermodal Facility.
- C. On February 8, 2011, the City selected ICON Venue Group and David Taylor Interests ("ICON-Taylor"), who between them have successfully developed numerous projects, including arenas, to analyze the feasibility of developing an ESC in Sacramento. On May 26, 2011, ICON-Taylor presented its feasibility study to the City Council, along with a proposal for the development of the ESC.
- D. City staff and City consultant Dan Barrett conducted a technical review of the ICON-Taylor study and proposal, identifying site and planning requirements as well as potential revenue streams to support debt financing for an ESC. Staff and Barrett presented its technical review to the City Council on September 13, 2011.
- E. ICON-Taylor desires to enter into an exclusive right to negotiate an agreement with the City to further explore the possible development of the ESC ("ERN"), and the City is willing to enter into an ERN.
- F. Authorization to negotiate with ICON-Taylor for an ERN is exempt from environmental review under the CEQA Guidelines (14 Cal. Code Reg. § 15000 et seq.) because it concerns only feasibility or planning studies for possible future actions that the City Council has not approved, adopted, or funded. It thus will not have any significant effect on the environment and does not constitute a "project." (CEQA Guidelines, §15061(b)(3) and §15262.)

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

- Section 1. The City Manager or his designee is authorized to negotiate with ICON-Taylor, and to bring back to the City Council for consideration and possible

approval, an “Exclusive Right to Negotiate an Agreement for Development of an Entertainment and Sports Complex.”