



City of Sacramento City Council

16

915 I Street, Sacramento, CA, 95814
www.CityofSacramento.org

Meeting Date: 9/27/2011

Report Type: Staff/Discussion

Title: Entertainment and Sports Complex: Schedule, Budget and Professional Services

Report ID: 2011-00847

Location: District 1

Recommendation: Adopt a Resolution authorizing the City Manager or his designee to enter into contracts for professional services for the Entertainment and Sports Complex.

Contact: John Dangberg, Assistant City Manager, (916) 808-1222, Office of the City Manager

Presenter: John Dangberg, Assistant City Manager, (916) 808-1222, Office of the City Manager

Department: City Manager / Economic Development Department

Division: Executive Office

Dept ID:

Attachments:

- 1-Description/Analysis
- 2-Resolution 2011-00847

City Attorney Review

Approved as to Form
Marcos Kropf
9/22/2011 11:43:53 AM [Via Email]

City Treasurer Review

Reviewed for Impact on Cash and Debt
Russell Fehr
9/21/2011 10:24:05 AM

Approvals/Acknowledgements

Department Director or Designee: John Dangberg - 9/22/2011 11:39:58 AM [Via Email]



Description/Analysis

Issue: At the September 13, 2011 Council meeting, the City Manager reported that staff would return to advise the Council on key milestones, needed outside professional services and a budget in order to proceed with due diligence over the next six months on the Entertainment and Sports Complex (“ESC”) project. This report provides a description of needed professional services, the anticipated costs and the sources to pay for the contracts as well as identifying the key milestones.

At the September 13, 2011, Council meeting, two relevant reports were presented as follows:

1. The Council received a report that outlined revenue and finance options for financing the ESC. Council gave direction to staff to review the revenue streams and report back on any policy and legal considerations on the options. Further, Council directed the review of the capacity of these streams to support debt and any impact on the city debt capacity and rating. The same report suggested that there may be substantial value in the City’s parking enterprise that could be leveraged and capitalized to make a significant capital contribution to the project. The Council directed staff to further analyze the value of the City’s on-street and off-street parking assets.
2. Staff presented a report recommending the City enter into an Exclusive Right to Negotiate (ERN) with ICON Venue Group and David S. Taylor Interests (collectively, “ICON-Taylor”) with the goal of negotiating the terms for a predevelopment agreement for the ESC. During the term of the ERN, the City and ICON-Taylor would establish the general terms and conditions of the Predevelopment Agreement for the financing, development, ownership and operation of the ESC Project with participation by a private developer. These negotiations will include the potential developer/operator(s) of the ESC, the National Basketball Association (“NBA”), the Sacramento Kings (“Kings”), and potentially other equity contributors and their negotiating team(s).

To protect the interests of the City and to provide staff and the City Council with the appropriate level of information, it is imperative that upon entering these multifaceted and complex negotiations the City has completed comprehensive due diligence. In addition, it is critical that the City be well represented in the negotiations with industry specific experts in these very specialized fields. Therefore staff are entering into the following contracts for professional services which will include legal, sports finance, parking, investment banking and municipal finance services described below:. With the exception of the Sports Finance Advisor, each of these contracts is below \$100,000, which is within the City Manager’s authority to execute.

Parking Asset Value Analysis: The potential capitalization of the City’s parking assets could be a critical component of the ESC financing as identified in the report to Council on September 13th. In order to assess the value, and further develop strategies to maximize the value while protecting the long term interests of the City, a parking consultant and an investment banker, or equivalent, with experience in

similar transactions is essential. This analysis may require assistance from outside bond counsel to analyze existing debt and as well elements of the capitalization evaluation.

Revenue and Finance Options Analysis: A number of revenue options were identified in the September 13th report tied to benefit assessment district financing including parking, food and beverage. A public finance analyst for peer review and further sensitivity analysis is required to confirm the availability of these revenue streams.

Entertainment and Sports Facility Negotiations and Agreements: A transaction lawyer with expertise in the development and operation of entertainment and sports facilities is needed to represent the City's interests in the negotiations and drafting of term sheets and legal agreements, including operating agreements, predevelopment agreements and development agreements.

ESC Developer/Operator/Team Negotiations: A financial advisor and industry expert in the operation of sports franchises, entertainment and sports facilities, finance and municipal debt will assist the City in establishing the ESC financial structure. The Sports Finance Consultant will represent the City in negotiations, while understanding the overall financial stake of the various stakeholders including the facility operator, the NBA and team owners. The proposed contract is with Barrett Sports Group in the amount of \$125,000 and would be a sole source contract due the unique experience and knowledge required.

The following activities will occur over the next 90 days with periodic reporting to the City Council on progress and conclusions:

- An evaluation of the asset value of the City's parking operations and assets along with policy, legal, timing, operations and general fund impact considerations.
- A peer review and further analysis of the revenue and finance options presented to Council on September 13th including: policy, legal, finance, timing and budget impact considerations
- A review by the City Treasurer of the debt capacity and credit rating implications of any debt
- Negotiations with ICON-Taylor, NBA, Kings and facility operator and the drafting acceptable terms for the finance, development and operation of an entertainment and sports complex
- Terms for addressing the Kings existing loan
- Upon reaching acceptable terms, the preparation of a predevelopment agreement for the ESC
- Initiation of California Environmental Quality Act process

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. Providing staff with the authority to enter into a sole source contract with Barrett Sports Group for professional will provide the City with an important representative in the negotiations with ICON-Taylor for the Predevelopment Agreement for the ESC.

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: For a project of this magnitude it is critical to have experts represent the City that are experienced in arena development. Hiring the consultant team described above will provide that specialized expertise to represent the City's interests in developing an ESC.

Financial Considerations: Total estimated cost for consultants over the next six months is \$555,000. The funding for these contracts will come from the Parking Fund and CIP closeout Funds as detailed in the chart below. These funds have been identified as the result of the City's ongoing efforts to review existing capital improvement projects and return excess funds to the fund of origin.

Activity	USE	SOURCE	
	Estimated Expense	Parking Fund	CIP Closeout
ESC Negotiations and Agreements			
Financial/NBA Advisor	125,000		
Transaction Counsel	100,000		
Sub Total	225,000		225,000
Parking Asset Value Analysis			
Financial Advisor	80,000		
Bond Counsel	30,000		
Parking Consultant	70,000		
Subtotal	180,000	180,000	
Revenue and Finance Options Analysis			
Subtotal	75,000		75,000
Contingency	75,000		75,000
TOTAL	555,000	180,000	375,000

Emerging Small Business Development (ESBD): Whenever appropriate, ESBD contracting goals will be considered. However, the consultants described in this report are highly specialized and may not meet the ESBD goals of the City.



RESOLUTION NO. 2011-

Adopted by the Sacramento City Council

APPROVING A CONTRACT WITH BARRETT SPORTS GROUP, LLC FOR FINANCIAL ADVISORY SERVICES FOR THE ENTERTAINMENT AND SPORTS COMPLEX AND BUDGET TRANSFERS

BACKGROUND

- A. On September 13, 2011, the City Council authorized the City Manager to proceed with negotiations with ICON Venue Group and David S. Taylor Interests (collectively, "ICON-Taylor") for the development of an entertainment and sports complex on City-owned property adjacent to the Union Pacific Depot (ESC).
- B. The City requires professional expertise to assist in the evaluation of and negotiations for the ESC including hiring legal and financial experts in public finance and predevelopment agreements for sports facilities as well as parking finance, which contracts are each under \$100,000 and within the City Manager's authority to execute.
- C. Additionally, the City requires professional expertise in sports finance to represent the City's interests in negotiations and assist in developing the financial structure of the ESC, which contract would exceed the City Manager's authority.
- D. Barrett Sports Group, LLC is a nationally acclaimed sport finance firm with expertise in the business of sports and financing sports facilities that has been evaluating the ICON-Taylor proposal and providing advice to the City on the ESC. Due to the unique expertise of the firm, the City desires to enter into a new sole source professional services contract with Barrett Sports Group for \$125,000.
- E. Funding to perform analysis and due diligence of the parking revenue option is available in the Parking Fund. General Funds for the legal and other financial professional services have been identified as the result of the City's ongoing efforts to review existing capital improvement projects and return excess funds to the fund of origin.

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

- Section 1. The City Manager or the City Manager's designee is authorized to execute a contract with Barrett Sports Group, LLC in an amount of \$125,000.
- Section 2. A multi-year operating project for the entertainment and sports complex planning is hereby established (I02000000) ("Entertainment and Sports

Complex Planning”).

- Section 3. The City Manager is authorized to transfer \$180,000 from fund balance in the City’s Parking Fund (Fund 6004) for the parking public/private partnership to I02000000.
- Section 4. The City Manager is authorized to transfer \$375,000 from the CIP Closure account (850010) in Non Department for the Entertainment and Sports Complex Planning to I02000000.