



## City of Sacramento City Council

915 I Street, Sacramento, CA, 95814  
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**Meeting Date:** 9/27/2011

**Report Type:** Staff/Discussion

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

**Report ID:** 2011-00845

**Location:** District 1

**Recommendation:** Adopt a Resolution authorizing the City Manager to execute an Agreement for the Exclusive Right to Negotiate with Icon Taylor 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:**

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- 1-Description/Analysis
- 2-Background
- 3-Resolution Exclusive Right to Negotiate
- 4-Agreement: Exclusive Right to Negotiate (To Be Delivered)

### **City Attorney Review**

Approved as to Form  
 Joseph Cerullo  
 Thu 9/22/2011 12:16 PM (Via email)

### **City Treasurer Review**

Reviewed for Impact on Cash and Debt  
 Russell Fehr  
 9/20/2011 10:36:52 AM

### **Approvals/Acknowledgements**

Department Director or Designee: John Dangberg, Assistant City Manager

Thu 9/22/2011 12:16 PM (Via email)

## Description/Analysis

**Issue:** In accordance with the City Council's authorization on September 13, 2011, the City Manager has prepared an Exclusive Right to Negotiate ("ERN") with ICON Venue Group, LLC and David S. Taylor Interests, Inc. (collectively, "ICON-Taylor") for the purpose of negotiating and completing a public-private-partnership predevelopment agreement for an entertainment-and-sports complex on the City-owned Railyards site (the "ESC"). The City and Redevelopment Agency often use ERNs for large projects involving private participation. ERNs allow negotiations to continue with a single development team while performing necessary due diligence and planning. Staff is seeking City Council approval of the ERN, which is attached to this report.

**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 and the City to negotiate the terms of a predevelopment agreement for the ESC. During the term of the ERN, the City and ICON-Taylor will identify equity partners, further develop the project proposal, develop terms and initiate limited predevelopment activities. The City and ICON-Taylor will work cooperatively to identify and quantify revenue sources to fund the ESC. 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:** Approval of the ERN will have no financial impact. However, costs associated with evaluation of the ESC and for preparation of the future predevelopment agreement will have financial impacts that are considered in Staff Report #2011-847, also under consideration by the City Council on September 27, 2011.

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

## BACKGROUND

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On February 8, 2011, from four teams that submitted proposals, the City Council selected ICON-Taylor to analyze the feasibility of developing an entertainment-and-sports complex (ESC) in Sacramento. ICON-Taylor is composed of David S. Taylor Interests, Inc., a Sacramento development firm with extensive Sacramento based development experience completing complex projects, and ICON Venue Group, LLC, which has had considerable success developing ESCs 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 that (1) an ESC could be built on either the Railyards or Natomas sites; (2) the ESC would meet the needs of the NBA and other event programs; (3) the cost of the ESC is approximately \$387 million; and (4) 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.

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.

On September 13, 2011, three reports were presented to the City Council as follows:

1. Staff presented its technical review of the ICON-Taylor. This report examined the myriad issues associated with building the ESC in the Railyards, including planning, building, urban design, circulation, parking, roadway, and utility issues along with potential strategies for the reuse of the Natomas arena site. Staff examined the assumptions underlying the ICON-Taylor analysis and identified areas where additional study is needed. Staff also confirmed that the schedule for completion of the project by 2015 was very constrained. In order to complete the project by 2015, predevelopment activities must commence as soon as possible.
2. 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 parking assets.

3. Staff presented a report recommending the City enter into an ERN with ICON-Taylor with the goal of negotiating the general terms for a predevelopment agreement for the financing, development, ownership and operation of the ESC. The Council approved a resolution directing the City Manager to return to with an ERN for Council consideration. During the term of the ERN, the City and ICON-Taylor will identify equity partners, further develop the project proposal, develop terms and initiate limited predevelopment activities. The City will continue its work to identify and quantify revenue sources to fund the ESC and further evaluate the capacity of ICON-Taylor to undertake a project of this magnitude.

The strategy being employed by the City and ICON-Taylor is a public-private partnership similar to that used by the City of Kansas City for the construction of the Sprint Center. 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.

Entering into the ERN will give ICON-Taylor the opportunity to approach major arena developers and operators and obtain their equity participation in the project. The expected term of the ERN will be through March 1 2012. The ERN will provide, however, that ICON-Taylor or the City may terminate the agreement on fifteen (15) days written notice prior to March 1, 2012 if either party reasonably determines that the negotiations will not result in a mutually agreeable Predevelopment Agreement. The agreement will contain a schedule of performance and objectives to be met by the City and 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.

During the term of the ERN and continuing into the term of the predevelopment agreement, the City will need assistance consisting of outside counsel who specializes in such agreements as well the services of a sports-finance advisor. The scope and cost of those services are described in the Staff Report #2011-00847 accompanying this report.



## RESOLUTION NO. 2011-

Adopted by the Sacramento City Council

### APPROVING AN EXCLUSIVE RIGHT TO NEGOTIATE WITH ICON-TAYLOR FOR THE 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 (the “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, LLC and David S. Taylor Interests, Inc. (collectively, “ICON-Taylor”), who between them have successfully developed numerous projects, including arenas, to analyze the feasibility of developing the ESC. 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 the ESC. Staff and Barrett presented its technical review to the City Council on September 13, 2011.
- E. ICON-Taylor and the City desire to enter into an exclusive right to negotiate an agreement to further explore the possible development of the ESC (an “ERN”), and, on September 13, 2011, the City Council authorized the City Manager to negotiate the ERN with ICON-Taylor and bring it back to the City Council for consideration and possible approval. A copy of the ERN that was negotiated is attached to this resolution as Exhibit A.

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

- Section 1.** The City Council hereby approves the ERN attached as Exhibit A and authorizes the City Manager or his designee to sign the ERN on the City’s behalf.
- Section 2.** The City Council’s approval of the 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.)



# To Be Delivered Attachment

15. Agreement: Exclusive Right to Negotiate for Entertainment and Sports Complex Report # 2011-00845

Exclusive Right to Negotiate (ERN) Document

The City and ICON-Taylor are currently negotiating the final details of the Exclusive Right to Negotiate (ERN). Upon satisfactory conclusion of those negotiations the ERN will be posted.