



DATE: August 15, 2012
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 12-24
Authorizing Negotiation of a Veterans Memorial Coliseum Operating Agreement and Agreement to Transfer Development Rights

BOARD ACTION REQUESTED

Adopt Resolution No. 6959

ACTION DESCRIPTION

Authorize the Executive Director to negotiate with the City of Portland Office of Management and Finance (OMF) regarding i) a conditional Operating Agreement whereby PDC would act as operator of Veterans Memorial Coliseum (VMC) in the event the current operator, Portland Arena Management (PAM), ceases to operate the facility and ii) an agreement whereby OMF would transfer to PDC certain Development Rights to properties within the Rose Quarter.

BACKGROUND AND CONTEXT

Over the last year, OMF, PAM and the Portland Winterhawks have been negotiating a Redevelopment Agreement (RDA) for the renovation and improvement of VMC. Under the current draft RDA, the total project budget is approximately \$31.5 Million, of which PDC would provide \$21.5 Million and the Portland Winterhawks would provide \$10 million.

VMC is owned by the City and operated by PAM pursuant to an Operating Agreement. The Operating Agreement expires in 2013, and PAM has two five year options to extend the Agreement. PAM has indicated that it intends to exercise the first of the two options extending to 2018, provided a final RDA is executed. If PAM exercises the second option, the Operating Agreement will extend to 2023.

As a condition to providing \$10 million to the renovation project the Portland Winterhawks have a requirement for i) a 10-year term on the sublicense for their use of the Veterans Memorial Coliseum for its games, plus two five year options and ii) assurances that there will be a party committed to operate the VMC for the period of time it is using the facility. While PAM may choose to operate the VMC for through the entire term of the Portland Winterhawks sublicense, it is not currently willing to commit to extend the Operating Agreement beyond 2018. Therefore, PDC proposed to fill the role of operator in the event PAM does not choose to.

PDC and OMF have outlined the preliminary terms under which they would recommend negotiating an Operating Agreement where PDC would assume the role of operator of the VMC. These terms are outlined in the Letter of Agreement and Term Sheet attached to the Resolution as Exhibit A ("the Term Sheet"). The proposed Resolution would authorize the PDC Executive Director to negotiate an

Operating Agreement within the parameters set forth in the Term Sheet. The following provisions in the Term Sheet describe and limit the scope of PDC's obligations:

- On an annual basis, OMF will set aside \$375,000 to cover existing or future capital repairs;
- If in any given year expenses exceed income, OMF will cover the first \$375,000 of operating losses; and
- PDC shall have no obligation to operate the VMC if the Portland Winterhawks cease to license the facility for its games.

PDC and OMF have also commenced discussions whereby OMF would transfer certain development rights in and around the Rose Quarter to PDC. The scope and extent of such development rights have not yet been defined.

This action will not commit PDC (or OMF) to finalize either an Operating Agreement or a development rights agreement. Any final agreement(s) will not be binding unless this Board by subsequent action approves the final material terms of the agreement(s). Prior to bringing a final proposed Operating Agreement to the Board, a report by an outside independent consultant will be completed showing the estimated costs / revenues of operating the VMC.

COMMUNITY AND PUBLIC BENEFIT

The Veterans Memorial Coliseum (VMC) is a regional community asset used by more than 400,000 visitors per year, and extensive public outreach has solidified support to preserve the building as an enhanced spectator facility.

Finalizing an Operating Agreement between PDC and the Office of Management and Finance will ensure the Portland Winterhawks' investment of \$10 Million in private capital investment.

PUBLIC PARTICIPATION AND FEEDBACK

No specific public participation was conducted for the Operating Agreement Term Sheet.

BUDGET AND FINANCIAL INFORMATION

PDC's financial obligations under the Operating Agreement term sheet include:

- PDC will cover operating losses in any given year beyond the City's \$375,000 operating loss cap, adjusted for inflation from legally available funds and appropriations; and
- PDC will bear the ordinary course expenses of operating the VMC.

RISK ASSESSMENT

At the current time, the extent of financial risk is unknown. However, by the time the final Operating Agreement is approved by the Board, PDC will have a report from an outside consultant independently analyzing the range of potential financial performance and risk. The Board may choose to not approve the final agreement if the results of the report are unsatisfactory.

Since PDC would not be required to operate the VMC until 2018 at the earliest, and perhaps not until 2023, any projections of income and expenses will involve a high degree of uncertainty.

The sources from which PDC would cover potential losses after 2018 or 2023 are not presently identified. TIF resources specifically will not be available to operate the VMC. However, the transfer to

PDC of development rights in the Rose Quarter will likely be of value and may be used to offset losses under the Operating Agreement. In the upcoming years, PDC will need to identify and provide resources to cover reasonably anticipated financial commitments.

ALTERNATIVE ACTIONS

The Board could choose not to authorize PDC's Executive Director and staff to continue negotiations on an Operating Agreement, which would likely cause the Portland Winterhawks to reconsider their investment in the project.

ATTACHMENTS:

- A. URA Financial Summary

URA Financial Summary

Five-Year Forecast Project Requirements Detail

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Convention Center URA						
Resources						
Beginning Fund Balance	1,697,229	47,187,725	5,920,015	3,645,841	1,006,682	69,763
Interest on Investments	0	25,000	20,000	5,000	5,000	5,000
Loan Collections	1,200,000	300,000	400,000	400,000	375,000	350,000
Long Term Debt	43,300,000	0	0	0	0	0
Property Income	3,264,750	0	0	0	0	0
Reimbursements	1,473,339	0	0	0	0	0
Short Term Debt	4,500,000	0	0	0	0	0
Total Fund Resources	55,435,318	47,512,725	6,340,015	4,050,841	1,386,682	424,763
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101350 Debt Management-CNV	28,613	30,044	30,044	30,044	30,044	30,044
Administration Total	28,613	30,044	30,044	30,044	30,044	30,044
Business Dev						
Cluster Industry Development						
B15100350 Cluster Development-CNV	200,000	200,000	200,000	200,000	200,000	0
B15102350 Site Recruitment-CNV	50,000	50,000	50,000	50,000	50,000	0
Business Lending						
L02100350 BIF-General-CNV	250,000	250,000	250,000	250,000	250,000	0
Small Business & Entrepreneurs						
B55800350 Business Development-CNV	100,000	100,000	100,000	100,000	100,000	0
Business Dev Total	600,000	600,000	600,000	600,000	600,000	0
Infrastructure						
Public Facilities						
N35023715 MLK Jr Blvd Gtwy Impr-CNV-Adm	30,000	0	0	0	0	0
N35033115 Green Streets-CNV-Adm	0	150,000	0	0	0	0
Infrastructure Total	30,000	150,000	0	0	0	0
Portland Hsg Bureau						
PHB Housing						
H15430350 Affordable Rental Hsg-CNV	1,456,848	9,037,600	1,176,364	0	0	0
H15900350 PHB Staff & Admin-CNV	212,204	274,016	0	0	0	0
H15902350 MFH - 2nd and Wasco-CNV	6,500	8,700	0	0	0	0
H15903350 Lloyd Cascadian Phase II-CNV	21,500	8,667	0	0	0	0
H15932350 King/Parks Afford Hsg-CNV	362,752	0	0	0	0	0
H15949350 McCoy Apts Rehab-CNV	480,614	0	0	0	0	0
Portland Hsg Bureau Total	2,540,418	9,328,983	1,176,364	0	0	0
Property Redevel						
Commercial Property Redevelopm						
A35401350 Central City 2035-CNV	138,029	0	0	0	0	0
P35050515 Eco District-CNV-Adm	195,000	70,000	70,000	70,000	70,000	0
P35050717 Convention Center Hot-CNV-Pred	0	4,000,000	0	0	0	0
P35051115 Block 47-CNV-Adm	20,000	0	0	0	0	0
P35051315 Rose Quarter Revit-CNV-Adm	23,000,000	22,000,000	0	0	0	0
P35052215 CC 2035-CNV-Adm	0	67,522	0	0	0	0
P35057915 Eco Distr Implement-CNV-Adm	200,000	1,680,000	0	1,680,000	0	0
P35059815 Inn At Convention Ctr-CNV-Adm	100,000	100,000	0	0	0	0
P35091015 Public Outreach-CNV-Adm	5,000	5,000	0	0	0	0
Commercial Real Estate Lending						
R01100350 CPRL-General-CNV	250,000	250,000	0	0	0	0
Community Redevelopment Grants						
G02100350 DOS-General-CNV	50,000	50,000	0	0	0	0

Five-Year Forecast Project Requirements Detail

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
G03100350 SIP-General-CNV	100,000	100,000	0	0	0	0
Property Redev			70,000	1,750,000	70,000	0
Total Program Expenditures	24,058,029	28,322,522	1,876,408	2,380,044	700,044	30,044
Personal Services	817,480	508,979	200,998	163,232	151,621	140,852
Transfers - Indirect	2,873,053	2,652,182	616,768	500,883	465,254	236,980
PHB Staff/Admin	0	0	0	0	0	0
Total Fund Expenditures	30,947,593	41,592,710	2,694,174	3,044,159	1,316,919	407,876
Contingency	24,487,725	5,920,015	3,645,841	1,006,682	69,763	16,887
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	55,435,318	47,512,725	6,340,015	4,050,841	1,386,682	424,763