

DATE: November 29, 2012
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 12-44
Authorizing a Project Funding Agreement to Provide up to \$2 Million in Contingent Funding for the Veterans Memorial Coliseum Renovation

BOARD ACTION REQUESTED

Adopt Resolution No. 6983

ACTION DESCRIPTION

Authorize the Executive Director to enter into a Project Funding Agreement for the financing of the Veterans Memorial Coliseum. This Agreement provides that PDC shall provide up to \$2 million of funds in the event that the Portland Winterhawks (“the Winterhawks”) do not provide project financing when needed to meet obligations. The Action will not increase the total amount that PDC has dedicated to the Project, but will re-prioritize funds currently budgeted for District Energy or a Contingent Grant, as described below. Any funds advanced by PDC are to be replaced by the Winterhawks, which obligation will be secured by a personal guarantee of William Gallacher, the owner of the Winterhawks, and a pledge of stock in the team. PDC’s obligation to advance funds under the Project Funding Agreement is contingent upon PDC approving the form of the Gallacher Guarantee and the stock pledge. If funds are advanced by PDC and repaid as agreed by the Winterhawks, the budget for District Energy and or the Contingent Grant will be replenished. Finally, the action authorizes the Executive Director to establish, in conjunction with other entities, a non-profit organization capable of taking control of the stock pledge if deemed desirable to perfect the pledge.

BACKGROUND AND CONTEXT

This is the third of three actions under consideration by the PDC Board in connection with the redevelopment of the Veterans Memorial Coliseum. The three actions must be approved as a package. The other two are i) Action authorizing an Operating Agreement and a License Agreement with the Portland Winterhawks, and ii) Action authorizing an Option Agreement granting PDC the right to accept certain real property interests within the Rose Quarter.

1. On May 23, 2012, the PDC Board approved an Amended and Restated Intergovernmental Agreement with the City of Portland (“the IGA”) to provide up to \$23.8 million in funding for the redevelopment of Veterans Memorial Coliseum. Of this amount, \$4.7 million was in the form of a loan; \$17.1 million was in the form of a grant contingent upon the City of Portland (“the City”), Portland Arena Management (“PAM”) and the Portland Winterhawks (“the Winterhawks”) entering into a definitive Redevelopment Agreement (“RDA”) whereby i) an additional \$10 million in funding was to be provided by the Winterhawks, and ii) PAM was to provide construction management services without charge or fee. The final \$2 million was in the form

of a Contingent Grant which would re-prioritize PDC funds currently designated for district energy to certain described costs necessary to replace heating and cooling systems.

2. The City, PAM and the Winterhawks have reached final agreement on a Redevelopment Agreement. Pursuant to the proposed Redevelopment Agreement, the Winterhawks are to provide \$10 million in funding for the redevelopment of Veterans Memorial Coliseum. Of this amount, \$2.5 million is to be provided upon execution of the Redevelopment Agreement, an additional \$2.5 million is to be provided upon 25% project completion (or no later than July 1), and the final \$5 million is to be provided upon 50% completion, or at 75% committed based on contract signed (or no later than July 1, 2012). The Winterhawks obligation to timely provide funding is to be secured by a personal Guaranty of William Gallacher, the owner of the Winterhawks, and by a pledge of the stock in the Winterhawks.
3. In order to insure the uninterrupted construction of the redevelopment, PAM and the City have requested that PDC enter into an agreement with the City whereby PDC agrees to back-up of up to \$2 million of the Winterhawks funding obligation in the event the Winterhawks fail to timely provide their portion of the funding. PDC's agreement to so increase its funding will be secured by an assignment of the Gallacher Guaranty and the pledge of the stock of the Winterhawks.
4. Any funds advanced under the Project Funding Agreement will come from the funds currently designated for district energy or the Contingent Grant described in Paragraph # 1 above.

The advancing of funds by PDC under the Project Funding Agreement does not relieve the Winterhawks of their obligation to fully fund their \$10 million contribution under the Redevelopment Agreement or William Gallacher under his Guarantee. Both the Guarantee and the stock pledge will be provided to PDC as security in the event PDC makes an advance under the Project Funding Agreement. Because of legal uncertainties regarding the ability of PDC to sell the stock collateral, this action also authorizes the Executive Director to form, in conjunction with other entities, a non-profit dedicated to economic development in Portland, and to transfer the stock pledge to such entity.

If the funds are later provided by the Winterhawks, or by Mr. Gallacher under the Guarantee, PDC will be reimbursed for its advances, which funds will be then available for either District Energy or for distribution under the Contingent Grant. If the funds are replaced by liquidation of the stock pledge and such stock has been transferred to a non-profit, the Board of the non-profit would determine the uses of the stock proceeds.

COMMUNITY AND PUBLIC BENEFIT

The benefits of the Veterans Memorial Coliseum renovation are fully described in the January 11, 2012, Board Report. This restructuring of PDC's financial contribution will permit the City, PAM and the Winterhawks to finalize the definitive RDA for the renovation of the Veterans Memorial Coliseum.

PUBLIC PARTICIPATION AND FEEDBACK

No specific public participation was completed related to this action; however, extensive public participation has resulted in the current project plan as has been previously reported.

BUDGET AND FINANCIAL INFORMATION

There is no change to the total PDC budget for the Veterans Memorial Coliseum project. The Action will not increase the total amount that PDC has dedicated to the Project, but will retask funds currently budgeted for District Energy or a Contingent Grant, as described above. If funds are advanced by PDC and repaid as agreed by the Winterhawks, the budget for District Energy and or the Contingent Grant will be replenished.

RISK ASSESSMENT

If PDC is required to make an advance under the Project Funding Agreement and if the Winterhawks do not replace these funds as agreed, there may be insufficient funds to provide district energy or to replace heating and cooling systems. While the Winterhawks obligation is secured by a guarantee of the Owner, there is no assurance that PDC will be able to timely collect on the guarantee. In addition, it is currently uncertain whether PDC can execute on the stock pledge.

ALTERNATIVE ACTIONS

The PDC Board could choose not to authorize this action. Since the City, PAM and the Winterhawks have all indicated that their willingness to enter into the RDA for Veterans Memorial Coliseum is contingent upon PDC's approval of the Project Funding Agreement, such action would likely cause these parties to either delay entering into the RDA until other financial backstops are obtained or terminate negotiations altogether. If the negotiations are terminated, the prospect for the Portland Winterhawks to provide \$10 million in private financing is problematic.

ATTACHMENTS

None