



### **City-Owned Downtown Arena Renovation (Ordinance S-45266)**

Request to authorize the City Manager, or designee, to amend, and/or enter into related agreements with Phoenix Arena Development Limited Partnership, Suns Legacy Partners, LLC (Phoenix Suns) and/or their affiliates or City-approved designees, to facilitate the renovation and extend the useful life of the City-owned downtown arena. The source of funds is the Sports Facilities Fund, which comes from earmarked excise taxes on tourism-related activities. Further requesting authorization for the City Controller to disburse, and for the City Treasurer to accept, funds related to this item pursuant to the agreements, and to authorize a procurement process for an owner's representative to oversee the City investment in the renovation.

#### **Summary**

In 1989, the City executed a development agreement, operating agreement, assurance agreement and related contracts with Phoenix Arena Development Limited Partnership (PADLP) and the Phoenix Suns, of which PADLP is an affiliate. The contracts outlined how the City and PADLP would partner to construct a new downtown arena, how it would be operated, and requiring the Suns to play their home games at the facility, which opened in 1992 as America West Arena (the "Arena").

Now known as Talking Stick Resort Arena, the multipurpose facility hosts concerts, family shows, conventions and professional sports events that occur every three days on average. The City-owned facility is among the smallest and is now the oldest NBA arena that is not in the process of being replaced or significantly refurbished. The nearly 30-year-old facility's infrastructure is experiencing deterioration, and systems and components are reaching end of life cycle. The operating agreement, whereby PADLP pays 100 percent of the Arena's operating, maintenance and event expenses and pays operating fees (rent) to the City, along with the contract requiring the Suns to play their home games at the facility, could expire as soon as 2022. The Suns can invoke an obsolescence clause as soon as July 1, 2019, to initiate arbitration that determines the binding commitments the City must make to render the Arena not obsolete.

In order to repair the infrastructure issues, remain competitive to attract major events to Phoenix, leverage private investment, and provide certainty for businesses,

residents and investors that this cornerstone of downtown will remain viable long-term, the following business terms (**Attachment A**) are proposed:

1. The Arena will undergo a \$230 million renovation between 2019 and 2021. The City's Sports Facilities Fund will contribute \$150 million and the Suns will fund \$80 million. Any costs over \$230 million will be funded by the Suns, not the City. The renovation will include significant repair and replacement of mechanical, electrical and plumbing infrastructure.
2. The term of the agreements will be extended to 2037 (15 years beyond the current term), with an additional five-year option at PADLP's discretion.
3. The Suns will build a practice facility off-site (estimated at \$25 to \$50 million), in Phoenix, to free up space in the Arena for other necessary program components. All development, operating and other expenses associated with the practice facility will be paid by the Suns, with no City contribution or liability.
4. Financial formulas that determine fees (rent) paid to the City will be amended to produce additional City General Fund revenue. This currently represents approximately \$1.5 million per year to the General Fund. After the renovation is completed, this is anticipated to grow to an estimated \$4 million annually, resulting in approximately \$60 million in fees/rent from the Suns to the City over the term.
5. Commencing one year after the completion of the renovation, the Suns and the City will each contribute to a Renewal and Replacement Account to help ensure the Arena's infrastructure remains reliable and the Arena remains competitive throughout the term. The City will contribute \$2 million annually from the Sports Facilities Fund, up to a maximum of \$25 million. The Suns will contribute \$1 million annually, up to a maximum of \$12.5 million.
6. As in the current agreement, PADLP will continue to pay 100 percent of all operations, event and maintenance expenses for the Arena.
7. PADLP and the Suns will waive all previously accrued fees associated with the Arena, forever discharging the City from any unpaid monies pursuant to the Arena operating and related agreements.
8. The City will procure an independent expert ("owner's representative") to facilitate the City's oversight of the renovation and to monitor the expenditure of City funds. The project budget will reimburse the City up to \$500,000 toward the cost of the owner's representative.

9. The Suns agree to amend the current assurance agreement to pay the City up to \$200 million in liquidated damages should the team relocate prior to the term expiration.

10. The amended agreements may contain other terms and conditions necessary to conform to the intent of the term sheet.

Additional information on this item may be found in the corresponding back-up report (**Attachment B**) and a related action item regarding financing (Item 30 of the 12/12/2018 agenda).

**Contract Term**

New contract expiration will be June 30, 2037, with an additional five-year extension at PADLP's discretion.

**Financial Impact**

All City financial obligations pursuant to the authorization will be paid from the Sports Facilities Fund.

**Location**

201 E. Jefferson Street  
Council District: 7

**Responsible Department**

This item is submitted by City Manager Ed Zuercher, Assistant City Manager Milton Dohoney, Jr. and the Finance Department and Phoenix Convention Center Department.