

City Council — Action Request Form

Date: June 15, 2009

To: The City Manager

From: Derwick L. Paige, Deputy City Manager
Denise C. Bell, Chief Financial Officer

Council Action Requested:

Adopt Resolution authorizing the following items related to the Brookstown Development project:

- A) Authorizing the acquisition of property from Brookstown Development Partners, LLC and Sports Menagerie, LLC; and
- B) Financing of the sale of certain City-owned land; and
- C) Clarifying language for the Brookstown Development Incentives Agreement with Brookstown Development Partners, LLC; Sports Menagerie, LLC; and Sports Menagerie Corporation.

Adopt Resolution of the City of Winston-Salem, North Carolina Directing the Application to the Local Government Commission for Approval of a Taxable Special Obligation Bond; Requesting Local Government Commission Approval of the City’s Taxable Special Obligation Bond; and Certain Related Matters.

Adopt Ordinance Authorizing the use of local funds in exchange for SAFETEA-LU Program funds.

Summary of Information:

On November 19, 2007, the City Council approved a revised economic development agreement with Brookstown Development Partners, LLC; Sports Menagerie, LLC; and Sports Menagerie Corporation for the Brookstown Development project. This mixed used development project if developed in full, would have an estimated taxable value of \$189 million. At that time, Phase I of the project consisted of baseball stadium that was anticipated to cost \$22.6 million; however, due to several significant changes in the project, the new cost is approximately \$40.7 million. In addition to the \$40.7 million in construction/development costs, the developer has expended \$18 million for land purchases related to Phase I and Phase II.

To date, approximately sixty percent of the construction of the stadium has been completed. Due to an unforeseen split in the partnership of owners and the current global credit crisis severely impacting financing for real estate development projects, Billy Prim, the remaining managing partner, has found it difficult to raise sufficient capital to complete the project.

Committee Action:

Committee	_____	Action	_____
For	_____	Against	_____
Remarks:			

Additional funding sources of \$32.7 million are needed to complete the project that will allow the payment of all outstanding bills on previous stadium work, purchase the stadium land and

cover all remaining work to be done. The funds would include 1) \$15 million in a commercial bank loan secured by the developer and other investors, 2) \$3 million in additional private equity investments, 3) \$2 million from an advancement of local funds in anticipation of a federal grant, and 4) \$12.7 million in funds provided by the City. Eight million dollars (\$8 million) of this additional funding will be used to secure the release of the land under the stadium from a first lien held by Regions Bank which is currently standing in the way of permanent construction financing.

A bank consortium will lend the developer \$15 million towards the completion of the stadium. The City would borrow \$12.7 million in additional funds as a private placement special obligation bond from a commercial bank and then use the funds to purchase an interest in the development property with a lease back provision to cover the entire cost of the borrowing. Because of the very difficult credit climate, it is necessary for the City to secure this portion of the commercial bank financing. The \$12.7 million would be used to acquire an interest in the land under the footprint of the stadium, the stadium itself, the adjoining parking spaces, and easements. The debt service on the \$12.7 million loan would be covered by an annual lease payment. If this item is approved, additional items authorizing 25-year leases of the City's interest in the stadium and land to the developer will come to the City Council for consideration on July 6, 2009.

The following chart summarizes the sources and uses of funds for the project:

Brookstown Development Project			
Estimated Sources and Uses of Funds			
USES	CURRENT	ADDITIONAL	TOTAL
Stadium Construction ¹	\$ 16,000,000	\$ 24,700,000	\$ 40,700,000
Phase I Land (stadium) ²	<u>8,000,000</u>	<u>0</u>	<u>8,000,000</u>
Subtotal	24,000,000	24,700,000	48,700,000
Phase II Land	<u>10,000,000</u>	<u>0</u>	<u>10,000,000</u>
TOTAL	\$ 34,000,000	\$ 24,700,000	\$ 58,700,000
SOURCES			
City of WS	\$ 12,000,000	\$ 0	\$ 12,000,000
Regions Bank (land)	18,000,000	(8,000,000)	10,000,000
Developer Bank Loan	0	15,000,000	15,000,000
City of WS Bank Loan	0	12,700,000	12,700,000
Federal Grant ³	0	2,000,000	2,000,000
Millennium Fund	1,300,000	0	1,300,000
Private Investment ⁴	<u>2,700,000</u>	<u>3,000,000</u>	<u>5,700,000</u>
TOTAL	\$34,000,000	\$ 24,700,000	\$ 58,700,000
¹ Includes \$10 million owed for existing work and \$14.7 million to complete. ² Includes \$1.05 million in capitalized interest. ³ City advances capital project reserves in anticipation of receipt of federal grant funds. ⁴ Private investment includes \$2 million from managing partner.			

Staff has reviewed a 5-year forecast of the project revenues and expenses and based upon the projections of at least 350,000 tickets per year being sold, the project generates revenues to cover the annual lease payments in addition to the debt service payments for the bank consortium loan. If the number of annual tickets is less than 300,000 then there would be a shortage in revenues to cover the lease payments. In case of a shortfall in revenues to make the City's lease payments, the deficits would accumulate and be repaid in future years from project revenues before any profits are distributed to the stadium or team owners. Exhibit A outlines the conditions for structuring the additional funding for the project.

On August 6, 2007, the City Council authorized selling certain City-owned land being Tax Block 0637, Lots 001, 002, 003, 004, 005, 006, 007, 008, 009, 010, 011, 012, 009P, 013W, 110A, 111, 110B; Block 0639, Lots 002, 003, 004, 005, 007, 115, 116A, 116B; Block 0659, Lot 109; Block 0098, Lots 003A, 101A, 201, 003B, 101C, 202A and Block 0103, Lots 106, 107 to Brookstown Development Partners, LLC for \$1,192,872 for the development of a mixed-use development known as the Brookstown Development project. Some of these lots have already been acquired by the developer; however, the remaining lots have not yet been purchased.

Brookstown Development Partners, LLC is requesting that the City finance their purchase of the remaining lots. The attached resolution authorizes the City to finance the sale of these remaining City-owned lots being Tax Block 0098, Lots 003A, 101A, 201, 003B, 101C, 202A and Tax Block 0103, Lots 106 and 107 for \$980,361 under the terms and conditions outlined in the attached Exhibit B, provided a lease is entered into with the City for a term of five years or the date by which the loan is paid whichever comes first, at fair market value, which shall not exceed the annual interest payment.

The attached resolution also clarifies language in the original economic development agreement related to the Brookstown Development project. Under the original agreement, Phase I of the project was envisioned to be a baseball stadium with a total capital investment of at least \$22.6 million. The City would apply 100% of the tax increment generated from this phase of the project towards the up-front financed investment (\$5.5 million) generated by the project. This tax increment plus revenues from the guaranteed surcharges on baseball stadium tickets would cover the City's entire debt service. However, the agreement was silent on what would happen if the Phase I investment exceeded \$22.6 million.

Because the Phase I investment will substantially exceed \$22.6 million, the developer has requested applying any portion of the actual taxable investment in excess of \$22.6 million to the City's previously authorized Phase II commitment of up to \$8,012,252. The Phase II commitment is scheduled to be provided over a period of up to 25 years based on the annual taxes paid to the City in the previous year. This clarification would simply make those funds available sooner, but the annual grants would never exceed 100% of the annual property taxes paid to the City for the previous year in excess of \$22.6 million investment. In addition, the City's total Phase II commitment of \$8,012,252 does not change.

The final modification involves the exchange of local transportation funds for SAFETEA-LU funds. Council previously authorized this adjustment of funds such that SAFETEA-LU funds would be used for the Broad Street project and local funds would be used for the Brookstown Development project. However, the adjustment was contingent upon SAFETEA-LU funds being

made available for the Broad Street improvement project. While staff is still optimistic that the Congress will approve a technical amendment to allow the SAFETEA-LU funds to be used for Broad Street, there is no timetable in place for this approval to occur. As such, the attached budget ordinance would allow this exchange of funds to occur now in anticipation of the SAFETEA-LU funds being made available for the Broad Street project, at some time in the future.