METRO COUNCIL OFFICE

M E M O R A N D U M

TO: Vice Mayor Neighbors and Members of the Metropolitan Council

FROM: Jon Cooper, Director
Metropolitan Council Office

SUBJECT: **Analysis for Special Council Meeting**

DATE: December 10, 2013

The mayor has proposed that the Metropolitan Government construct a new $65 million ballpark to be located at the historic Sulphur Dell site in the Jefferson Street/Germantown area. The new ballpark would allow the Nashville Sounds to move from Greer Stadium, which has been home to the Sounds since its construction in 1978. The condition of Greer Stadium has fallen below the standards set by Major League Baseball for AAA stadiums. In 2006, the council approved a memorandum of understanding with the former Sounds ownership and a private developer that would have resulted in the Sounds constructing a $43 million stadium on the former thermal transfer site. However, that project never came to fruition.

The majority of the Sulphur Dell site is owned by the state of Tennessee and is used as surface parking for state employees. Embrey Development Corp., a private developer from San Antonio, Texas, has an option to purchase a 3.38 parcel of property located at 916 4th Avenue North that is within the footprint of the proposed ballpark upon which it intended to construct a multifamily residential development. In addition, the Sounds have an option to acquire another part of the property within the footprint. Under the terms of the ballpark proposal, Metro will acquire the state property and pay $23 million to construct two new parking facilities for the state, receive part of the Tennessee Preparatory School property from the state, swap a parcel of property on Jefferson Street for the Embrey property, and issue $65 million in sports authority revenue bonds to build the ballpark.

The remaining legislation involved to approve this transaction includes: (1) the bond financing ordinance; (2) an ordinance approving the various property transfers with the state and Embrey; and (3) an amendment to the Phillips-Jackson Street redevelopment plan to increase the TIF capacity and duration of the plan. A summary of the required legislation and financing plan is included below.

Ordinance No. BL2013-593 (Steine, Gilmore & Garrett) approves the issuance of revenue bonds not to exceed a principal amount of $65 million, authorizes the execution of a trust indenture, approves an intergovernmental agreement with the sports authority, authorizes the pledge of revenues for the bonds, and authorizes the distribution of an official statement for the sale of the bonds. The bonds will fund the ballpark land acquisition, design, engineering, construction, and capitalized interest. The bonds are to be paid from an assortment of revenue sources. First, the bonds are to be paid from the increased state and local sales taxes to be generated by the facility. State law provides that the increase in state and local taxes derived from the sale of tickets, concessions, merchandise, parking, and related services at a new minor league baseball stadium can be allocated and used for payment of the debt on the stadium for a period of thirty years. Second, a $700,000 per year lease payment from the Sounds for 30 years will also be allocated toward payment of the debt. The third source of revenue for the bonds would be the tax increment financing (TIF) generated by the $37 million Embrey 250-unit multifamily residential development and a $50 million mixed-use development to be constructed by the Sounds next to the ballpark, as well as approximately $500,000 per year of existing undesignated TIF funds under the control of MDHA from previous private projects for which the debt has been retired. TIF is a financing mechanism authorized by state law whereby the increased property tax revenue generated by a development is used to pay the debt service on the construction of the project. Although TIF is typically used for private developments involving private lenders, TIF is allowed for public projects financed by the government. Utilizing TIF as a revenue source means Metro will be foregoing the property taxes generated by the developments for 30 years.

The final source of revenue pledged for the bonds are the USD (urban services district) "non-tax revenues". These revenues, totaling approximately $14 million per year, are predominantly comprised of payments-in-lieu-of-taxes from utilities, but also include business tax recording fees and a few other minor service charges. While these bonds would not be backed by the full faith and credit of the Metropolitan Government, the USD non-tax revenues would have to be made up for with general fund tax dollars or operating budget reductions if these revenues had to be used to pay debt service on the ballpark.

Capitalized interest for two years in the amount of $5 million is built into the bonds since the revenue streams will not be collected until the ballpark and associated private development have been constructed. This will allow Metro to borrow the funds to cover the interest on the bonds during construction.

This ordinance also approves a trust indenture with Regions Bank serving as the trustee. The trust indenture secures the payment of principal and interest on the bonds. The term of the bonds will be 30 years (2014 through 2043). Any future pledge of the USD non-tax revenues would be subordinate to the pledge for the ballpark bonds. The collection of the non-tax revenues must continue to be at least twice the maximum debt service requirement on the bonds.

Intergovernmental Agreement with Sports Authority

This spells out Metro's and the Sports Authority's responsibilities regarding the construction and financing of the ballpark. The Sports Authority will issue the bonds and Metro will build the ballpark. Once the ballpark is constructed, the Sports Authority will enter into a 30 year lease with the Sounds at an annual rental amount of $700,000. The intergovernmental agreement incorporates a summary of the Sounds lease, which will allow the Sounds to keep all revenues generated though ticket sales, broadcast rights, advertising, concessions, and naming rights. The Sports Authority will assign its parking rights in the garage to the Sounds. The Sounds will be responsible for maintaining the ballpark except for large capital improvements. It is anticipated that the lease will include at least 20 days for use by Metro for community events as long as the Metro events do not conflict with the baseball schedule.

Ordinance No. BL2013-594 (Gilmore, Steine & Others) approves agreements for the acquisition and disposition of various properties relating to the construction of the ballpark at Sulphur Dell, a new private development project, and the acquisition of a portion of the former

Tennessee Preparatory School property located on Foster Avenue. As noted above, the state is the owner of property between 4th Avenue North and 5th Avenue North, which is the majority of the land needed to build the ballpark and the private multi-family Embrey development. The state plans to construct a new Tennessee state library and archives building, as well as a new Tennessee state museum, on property across 5th Avenue from the ballpark. In order to protect the state's interests, the state requirements of Metro are: (1) replacement of the lost parking spaces with a new parking garage; (2) compensate the state to offset additional costs they will incur as a result of the development; and (3) protect the state's investment in Bicentennial Mall and the new state buildings to be constructed.

State Agreement

In exchange for receiving the state property, Metro agrees to pay the state $18 million to construct a new above ground four level parking garage with a minimum of 1,000 spaces, $5 million to construct underground parking for the new library and archives, and $100,000 to relocate an electric vehicle charging station (if necessary). The state will be responsible for construction of the garage using Metro's design firm. During the period of construction, Metro must provide parking for state employees at LP Field and cover the costs of shuttling the employees. Metro has the right to all parking revenues from the garage on game days, which will be transferred to the Sounds through another agreement. Metro may be required to set aside 100 spaces on game days for the state if the date conflicts with another state function that will require visitor parking.

Metro agrees to accept full responsibility for any environmental issues that may arise. The state has the right to repurchase the western portion of the property if it is needed for a state project. The agreement with the state requires a design approval committee for all development, with the state having three representatives on the committee. If the Embrey development falls through, the state will have the right to repurchase the development property for $5,401,000.

The appraised value of the state property to be acquired by Metro is between $13 and $14 million. In order to make the transaction more equitable, the state agrees to transfer 28 acres of the TPS property located at 1212 Foster Avenue, which has been leased by Metro public schools for a number of years to house the Nashville School of the Arts. Once the property is transferred, Metro schools will save $410,000 per year in rent they are currently paying to the state. The appraised value of the TPS property to be transferred is $7 million.

Embrey Agreements

This ordinance authorizes Metro to purchase a 3.38 acre parcel on 4th Avenue South from Embrey for $3,450,000. Prior to the ballpark proposal, Embrey was planning to construct its multi-family residential development on this property. Metro agrees to purchase the property "as-is", including its current environmental condition. The closing on the property must take place not later than December 23, 2013. Metro agrees to reimburse Embrey $853,160 in predevelopment expenses it has already incurred. This amount has been rolled into the $65 million bond financing. To the extent not prohibited by applicable law, Metro agrees to maintain two-way traffic flow on 3rd Avenue South, 4th Avenue South, 5th Avenue South, and Jefferson Street. The traffic and parking commission has the exclusive responsibility under the Metro charter for traffic flow, which cannot be contracted away.

This ordinance also approves a corresponding purchase and sale agreement between Metro and Embrey for the property bordered by 4th Avenue South, 5th Avenue South, Jackson Street, and Jefferson Street. After acquiring the property from the state, Metro would sell the property to Embrey for $3,450,000. Embrey would get a credit toward the purchase price for demolition costs, site work, water/sewer line extensions, water/sewer tap fees, signalization, power line relocation, building permit fees, and the cost of environmental remediation. Metro does not yet have an estimate for this credit, which would reduce the selling price accordingly. Embrey will have a 60 day "feasibility period" to inspect and investigate the property. The closing must take place within 30 days after the feasibility period ends. If, after investigation, Embrey determines that the site is not feasible for its development, it may cancel the agreement and Metro would remain owner of the property (subject to the right to repurchase by the state).

If for some reason Metro is unable to transfer the property and terminates the agreement before closing, Metro would be required to pay Embrey a $2 million termination fee as liquidated damages plus the reimbursement of their out-of-pocket costs up to $1 million.

Ordinance No. BL2013-595 (Gilmore) approves amendment No. 5 to the Phillips-Jackson Street Redevelopment Plan. This redevelopment plan was first adopted in 1993, and extended in 2005. The plan is basically for the redeveloped area surrounding the Bicentennial Mall between Interstate 40 and Interstate 65, and the Cumberland River to Hume Street. The Phillips-Jackson Street Redevelopment district provides for general residential, mixed use, public use, commercial services, and general business uses.

This amendment extends the expiration date for the plan from December 31, 2030 to December 31, 2045 to coincide with the term of the bonds for the ballpark. In addition, the amendment increases the amount of project costs to be financed through tax increment financing from $11 million to $50 million.

Summary of Financing and Risk

The sports authority will issue revenue bonds in the amount of $65 million to finance the construction of the ballpark. The annual debt service on the $65 million bonds is estimated to be approximately $4.3 million. The sources for the debt service are as follows:

Annual lease payment from the Sounds	$700,000
Estimated increased sales taxes generated at the ballpark	$650,000
TIF generated by $50 million Sounds development	$750,000
TIF generated by $37 million Embrey development	$675,000
Existing undesignated TIF from the redevelopment district	$520,000
Elimination of Metro contribution for Greer Stadium	$250,000
Elimination of School of the Arts lease for TPS property	$410,000
Total	$3,945,000
Required Debt Service	$4,300,000
Less Revenue Estimate	($3,955,000)
Estimated Annual General Fund Impact	$345,000

The basic risk associated with the proposal concerns the private development components. Neither the Sounds nor Embrey are contractually obligated to construct their portion of the development proposal. If one or both of those developments did not occur, Metro would not get the benefit of the TIF to apply towards the debt service. The amount of money needed from the general fund annually would be increased by $1,450,000 if neither of the private developments were constructed. Further, the financing plan presupposes Embrey would not have followed through with its plans to build the multifamily residential development on the property it already has under contract absent the construction of a ballpark. Were Embrey to move forward without a ballpark deal, Metro would realize the benefit of the $675,000 in increased property tax revenue from the residential development.