

## **SUPERINTENDENT'S RECOMMENDATION REGARDING THE PROPOSALS FOR THE ACQUISITION OF THE CIVIC STADIUM PROPERTIES**

*May 18, 2011*

### **Action Proposed:**

**Award Contract and Authorize Real Property Consultant and Staff to Negotiate the Contract Terms with Master/Powell for the long-term Ground Lease of the Civic Stadium Properties** (Staff: Jon Lauch & Larry Massey)

### **Background:**

In June 2010, the Board decided to market the Civic Stadium properties for sale, lease or trade using an RFP process. The RFP was released October 1, 2010. Presentations of all three proposals were made to the Board in executive session on Monday May 16, 2011. Some offers were modified significantly while others were simply clarified. All presenters were given until noon on Tuesday May 17 to respond with additional information or clarifying questions that were not fully addressed during the presentations. Following the presentations the Board conducted further deliberations to de-brief the presentations and information provided.

The quality and substance of the presentations was varied. Answers to questions posed by the Board, real property consultant, and staff either built confidence in the individual proposals or elevated significant concerns. On the whole, the Master/Powell presentation was the strongest and most fully addressed the questions and concerns. Following the presentations, concerns remain, to varying degrees, regarding the Eugene YMCA and Save Civic Stadium Proposals.

There are a number of concerns with the Save Civic Stadium (SCS) proposal, not the least of which is the financial capability of the organization. While there appear to be a number of potential opportunities for grants, tax credits, and revenue bonds, the proposal is heavily dependent upon fundraising of charitable donations. Phase I capital improvements are projected to be complete in two years which is highly optimistic; perhaps unrealistic, since this requires fundraising or financing for over \$11 million. Revenue projections are made which reach the full amount of cash flow for year three of the lease, yet appear to be dependent upon completion of Phase II improvements for an undetermined commercial development partner which will provide 50% of the lease payment. The additional costs for these improvements are over \$9 million. The District would likely be required to subordinate its position to financing (repayment of revenue bonds, for example) or to make guarantees which are typically associated with receipt of grant funds and/or tax credits. The parking and traffic issues of the fully re-developed site and intensification of use have not been adequately addressed. There is concern whether the proposed lease payments are achievable and sustainable, along with the proposed CPI increases over the 40 year term of the proposed lease.

While the community perception of the Eugene YMCA proposal has centered on the construction of a new Y, this piece is the minority element of the proposal (40%) and appears to be contingent upon successful fundraising and pending transactions with their housing partner regarding their current property. The student housing portion of

the proposal represents 60% of the development. The Board was informed during the presentation that if the construction of the Y was not able to materialize, that the remaining portion of the site would be further developed as student housing. The Board was also informed that, either the District would need to subordinate its position to the financing for the housing portion of the development, or an arrangement or mechanism would need to be created through which the District's risk would be mitigated in the event of default or foreclosure. This arrangement or mechanism adds a level of complexity that was not initially anticipated.

There is little doubt regarding the development capability and the financial capability of the Master/Powell development team. This team has extensive local experience and expertise in mixed use development and understands the requirements and complexities of the associated land use and planning processes. The District would not be required to subordinate to financing and would remain in first position in event of default or foreclosure.

**Discussion:**

The Request for Proposal outlined the process and goals to be used by the Board in reaching a decision regarding the proposals as follows:

*Each proposal in the Competitive Range will be evaluated by the Board in light of the goals listed below, as well as all other factors set forth in this RFP, including but not limited to Proposer's experience and qualifications, and financial capability.*

*The primary goal of School District 4J is to dispose of the Property for the highest possible revenue. To the extent that it does not materially and adversely affect the primary goal, SD 4J also has the following secondary goals:*

*To the extent not inconsistent with SD 4J's primary goal, SD 4J would like to sell the property to a Buyer that submits a proposal that provides other (non-monetary) benefit to SD 4J, provides community benefit, is compatible with the surrounding neighborhood and proximity to South Eugene High School, and that potentially preserves the Civic Stadium grandstands for continued use as an assembly venue.*

A recap/summary of the proposals as modified is provided below.

**Save Civic Stadium (SCS), Eugene, OR**

**Property Development Proposal:** Rehabilitation of the stadium and site conversion into a multipurpose sports venue, including restaurant, indoor field house, and other potential development.

**Purchase Offer:** Option to purchase under ground lease; amount and terms unspecified.

**Ground Lease Option:** Long-term lease (40 years) with (unspecified) option to purchase. Starts at \$70,000 per year for two years, then increases to \$300,000 per year with annual CPI increases.

**Conditions:** Dependent upon fundraising.

**Projected Development Value:** \$20.7 million (Phase I: \$11.4 million. Phase II: \$9.3 million).

**Eugene YMCA (Y), Eugene, OR**

**Property Development Proposal:** New YMCA facility (40%) with 550 bed four-story student housing complex(60%).

**Purchase Offer:** \$3.52 million cash plus value of transferable SDC credits (currently estimated at \$243,161). Student housing portion (property) taxable under fee simple purchase only.

**Ground Lease Option:** \$113,000 per year for Y portion (99 year lease) with 15% escalation adjustment at 5 year intervals. \$170,000 per year for student housing portion (65 year lease). Both elements property tax exempt under ground lease. *[this section corrected 5/19/11]*

**Conditions:** Land use, development approvals. District to obtain approval for removal of stadium and "de-listing" from National Register of Historic Places.

**Projected Development Value:** \$49.2 million

**Master Development, LLC & Powell Development Co. (M/P), Eugene, OR**

**Property Development Proposal:** Mixed-use development with retail (Fred Meyer anchor), restaurants, and residential apartments.

**Purchase Offer:** \$4,750,000 cash, property taxable.

**Ground Lease Option:** \$330,000 per year with 15% increase every 10 years. 20 year term with five 10-year renewal options. Option to purchase, base upon fair market value appraisal, at end of initial 20 year term.

**Conditions:** Land use, development approvals. District to obtain approval for removal of stadium and "de-listing" from National Register of Historic Places.

**Additional Provisions:** Annual lease rate effective immediately (refundable annual deposits). Additional payments to offset holding costs - \$25,000 per year; \$50,000 per year after land use approvals (during design and permitting phase).

**Projected Development Value:** \$40 million.

The pros and cons for each proposal are listed below:

**Save Civic Stadium (SCS):**

**Pros:**

- Preserves the historic stadium for community use.
- Provides immediate income to SD 4J.
- Stadium use compatible with neighborhood to the extent historical use is compatible.
- Provides community venue for outdoor entertainment.
- Provides additional athletic facility capacity for community.

**Cons:**

- Financial capability of organization questionable. Depends upon fundraising, grants, tax exemptions, and bonds to fund improvements.

- Potential risk to District if grant funds and/or tax credits are invested and development fails (conditions are typically attached to such funding).
- District may be required to subordinate to financing.
- Relies on sub-lease to undetermined commercial enterprise for 50% of lease payments (\$150,000 per year).
- 2-year projection for completion of Phase I improvements and establishment of positive cash flow for full amount of lease payment is unrealistic.
- Experience and qualifications of proposer team not as strong as other proposers which brings to question development capability.
- Potential District liability/risk if stadium is used prior to completion of renovations.
- Traffic and/or parking issues/concerns are not adequately addressed.
- Zoning and land use issues undefined (for commercial enterprise partner).
- Minimal additional benefit to SD 4J. Rental charges for facility use preclude frequency of use since SD 4J has adequate facilities.
- Concern whether the annual CPI increases in lease payments are sustainable over the 40 year term of the ground-lease.

**Eugene YMCA (Y):**

**Pros:**

- Provides opportunity for Y to rebuild in vicinity and proximate to schools.
- Continued partnership with Y provides additional non-monetary benefit to SD 4J students.
- Experienced and qualified housing partner.
- Relatively low dependence upon fundraising.
- Back-up plan to fully develop with student housing if Y is not built.

**Cons:**

- Does not preserve grandstands.
- Does not provide immediate revenue to SD 4J. SD 4J continues to bear holding costs during entitlement period.
- Lowest projected revenue to SD 4J.
- The escalation rate of 3% per annum for the Y's portion of the ground lease does not appear to be sustainable over the 99-year term of the ground-lease.
- Added complexity of requiring an arrangement to address or alleviate the District's risk of subordination to the financing for housing development.

**Master/Powell (M/P):**

**Pros:**

- Most experienced and qualified proposer team
- District is not required to subordinate to financing and remains in first position in event of default or foreclosure.
- Maximizes potential revenue compared to other proposals.
- Provides immediate income to SD 4J.

- Strongest financial capability.
- The 15% increase in lease payments every ten years appears to be sustainable.
- Potential to preserve portion of grandstands for continued community use as proposer will contribute funds toward relocation.
- Strong effort to memorialize site through reuse of materials and creation of public spaces.
- Commitment to continue to work with neighborhood and community as development plans progress.
- Extensive traffic improvements planned, including off-site improvements (community benefit).
- Attention to connectivity and safety for pedestrians and cyclists (community benefit).
- Greatest degree of economic community benefit through combination of construction of improvements, job creation, and annual property taxes (projected at \$408,000).

**Cons:**

- Does not preserve grandstands in current location.
- No additional (non-monetary) benefit to SD 4J.

The Eugene Y and Master/Powell proposals have both indicated a preference to purchase the property on a fee-simple basis (cash sale). The Board decided, however, to structure the RFP in a way that allowed for the flexibility of ground-lease options, allowing the District to choose between a full range of options, selecting the option that provides the greatest benefit. The Eugene Y and Master/Powell provided a "companion" ground-lease offer at the District's request. Under the right circumstances, a ground-lease can provide greater long-term financial return while still limiting the District's risk of property ownership, and can provide additional flexibility for the future. The total estimated value of the three ground-lease proposals, projected over a 20 year period is estimated as follows:

Save Civic Stadium: \$10.7 – 13.4 million (with TBD 50% site development partner)  
Eugene YMCA: \$9.0 -12.5 million  
Master/Powell: \$12.0 – 16.6 million

**Recommendation:**

In making my recommendation I have weighed the relative risk for the school district, considered the Board's goals as listed above, listened to the Board's deliberation in executive session, and received the Districts' staff and real property consultant's assessment of the proposals. The District needs a partner in which it can have a high level of confidence in the ability to successfully follow-through on its proposal. I will be recommending that you select the Master/Powell ground lease proposal; that you award a contract to Master/Powell subject to the successful negotiation of the contract terms, and that you authorize the District's real property consultant and staff

to negotiate the terms of the contract following the expiration of the 72 hour protest period. This proposal will provide the District with an ongoing revenue stream of \$7.1 million over the next twenty years which represents an average 7.5% return on investment based upon the land value reflected in the purchase offer. The proposal also provides the opportunity to continue the lease or to sell the property at fair market value in the future. The proposal provides additional community benefit associated with the economic development and property tax revenue to support public services.

**Additional Considerations:**

The Board may wish to consider working with the Eugene Y to explore options to partner in potential solutions that would alleviate or mitigate parking requirements for the potential reconstruction of the Y facility on its current site which severely limits the Y's current options.

The Board may also wish to consider potential relocation options for the stadium in collaboration with Save Civic Stadium and the City of Eugene, concurrent with the approval process for the removal of the stadium from the site. Such relocation would need to limit the District's financial exposure.