

City of Sacramento

Legislation Text

File #: 2019-00523, **Version:** 1

Title:

Preliminary Term Sheet for the Development of a Major League Soccer Stadium for Sacramento Republic FC and Railyards Infrastructure

File ID: 2019-00523

Location: Downtown Railyards, District 3

Recommendation:

Adopt a Resolution approving the Sacramento Major League Soccer Stadium Preliminary Term Sheet (Term Sheet).

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Attachments:

- 1-Description/Analysis
- 2-Background
- 3-Resolution
- 4-Sacramento MLS Term Sheet 03282019

Description/Analysis

Issue Detail: Major League Soccer (MLS) is the highest level of professional men's soccer in the United States and Canada. The league has been expanding in recent years and based on the number of teams currently playing and the number of additional expansion teams awarded, the league stands at 27 committed teams. The league has committed to expand to 28 teams, and although there is speculation and discussion about the league expanding beyond that figure, there is currently one expansion opportunity slot available. MLS is considering several expansion opportunities throughout the United States.

Sac Soccer and Entertainment Holdings, LLC (SSEH) and its affiliates, including Sacramento Republic FC (Team), are seeking an award of an expansion team in Sacramento. To be awarded an expansion team, an MLS-qualified stadium must exist or be constructed to host the team. There is no existing stadium in the City of Sacramento that meets MLS standards. Thus, a viable plan for construction of a new stadium must be in place to secure an expansion team. The attached Term Sheet provides the framework for a public-private partnership for the construction and operation of a new stadium, and investment in critical Downtown Sacramento Railyards (Railyards) infrastructure.

The City has approved all necessary planning entitlements for the construction of a multi-purpose stadium in the eastern quadrant of the Sacramento. However, this quadrant lacks critical onsite and offsite infrastructure for the planned residential, retail, office, open space, and stadium uses. The attached Term Sheet provides for a public-private partnership to complete critical infrastructure. That infrastructure would directly support as much as \$1 billion of development in the Railyards' eastern quadrant and would further enable additional development of the Railyards.

The City Council previously approved a preliminary term sheet with SSEH as they pursued an MLS expansion team in December 2015. That term sheet and effort did not result in the award of a team. Since then, a new investor group with additional financial capacity and professional sports league experience has joined the SSEH bid to pursue a team. The investor group that is led by Ron Burkle (Investor Group) would become the managing general partner of the company that control the rights of the MLS expansion team.

The Investor Group has been working with the City to form a partnership to ensure that a new MLS multi-purpose stadium can be developed in Sacramento. The attached Term Sheet outlines the principal terms and provides a framework for moving forward with a stadium and area-wide infrastructure for multi-use development of the Railyards. It also demonstrates to MLS, in part, that a stadium can feasibly be developed in Sacramento and has the support of the City.

If approved by the City Council, the Term Sheet would be submitted to MLS to assist in its evaluation process. While the Term Sheet is preliminary and non-binding, it would serve as a good faith agreement and guideline for the preparation of definitive agreements between the City and Investor Group for the development of a new multi-purpose stadium and Railyards infrastructure. The Term Sheet would only be implemented if MLS awards an expansion team and Investor Group consummates the acquisition of the Team.

The Term Sheet sets forth the key terms, process, and framework by which the parties agree to negotiate definitive documents and potential approvals to be considered by the City regarding the potential location, financing, ownership, design, development, construction, operation, use, and occupancy of a new, first-class, state-of-the art, multi-purpose stadium. In addition to serving as the home of Sacramento Republic FC, the stadium would host concerts, sporting events, community-oriented events, and other events.

The parties would agree to prepare definitive legal documents that contain the basic terms set forth in the Term Sheet, as well as other terms that are customary or standard for a project of this nature. The definitive legal documents may contain additional terms that are agreed to by the parties and that the City determines to be feasible. Definitive legal documents would be presented to the City Council for consideration after the MLS award of an expansion team.

Summary of Key Terms:

Stadium Development: The Investor Group would pay for and own the stadium and be responsible for all aspects of the stadium design, finance, construction, operation, maintenance, capital repairs, and improvements. The stadium would be located at the Railyards. The Investor Group has reached a tentative agreement with Downtown Railyard Venture, LLC to acquire the stadium site and adjacent development sites totaling approximately 31 acres. The stadium site is approximately 14 acres. In addition, the Investor Group would acquire 17 acres adjacent to the stadium for ancillary development. The estimated total development cost of the stadium is \$252 million, and the ancillary development could be multiple times that amount. The Stadium project entitlements including California Environmental Quality Act review, Site Design and Plan Review, Conditional Use Permit, and variances have been previously approved by the City Council.

The City would absorb all internal (non-third-party) stadium building permit-related administrative, processing, and inspection costs, which are estimated at \$1.8 million. City-imposed construction excise taxes estimated at \$181,000 would be reimbursed by the City to the Investor Group. The Investor Group would require all contractors and subcontractors constructing the stadium to obtain a Use-Tax Direct Payment Permit from the State Board of Equalization. This would ensure that use-taxes generated by stadium construction on contracts over \$5 million would be allocated to the City. The City would reimburse the Investor Group for that use-tax generated by the project and received by the City. A similar arrangement for the construction of the Golden 1 Center generated approximately \$457,000 in tax revenue.

Non-Relocation Agreement: The team would enter into a binding and enforceable stand-alone non-relocation agreement with the City that includes specific performance and injunctive relief provisions, pursuant to which the team will irrevocably and unconditionally commit and guarantee to play all its home pre-season, regular season, and post-season games at the stadium for a term of 35 years subject to a limited number of league-approved neutral site games and other customary exceptions.

Enhanced Infrastructure Financing District (EIFD): The City would pursue the establishment of an EIFD as provided under the California Government Code for a term as permitted under the code or the termination of the definitive agreements, whichever is earlier. The district would be established for the purposes of reimbursing the Investor Group for privately financed costs associated with public infrastructure improvements that support broad development within the district boundaries. The

Investor Group would be responsible for securing its financing and other funding sources required to design and construct the required infrastructure, currently estimated at \$27.2 million. Reimbursement would not exceed the inflation-adjusted cost of the infrastructure improvements minus any publicly funded infrastructure grants.

The City's reimbursement would be limited to net-new incremental property tax revenue that is directly derived from the stadium and the ancillary development proposed within the 31-acre district boundaries. The EIFD would capture property tax revenue that would otherwise be deposited into the City's Innovation and Growth Fund, and thus, will not impact the General Fund. No EIFD reimbursements would be provided for the stadium-site construction work.

Municipal Services: At all events, the Investor Group would be required to reimburse the City for its municipal service costs, including police, fire, emergency medical services, code enforcement and traffic control. To support start-up operations, and for a period of ten years, the City would waive such reimbursement for off-site municipal services provided in the public right of way (not inside the stadium, on the stadium site or parking sites) for MLS soccer events up to a maximum of \$300,000 per year. The Investor Group would reimburse the City for municipal costs over \$300,000 in any given year. The maximum contribution of municipal services is \$3 million over the ten years. The estimated cost for municipal services is between \$6,500 and \$12,000 per soccer event. MLS teams currently play 17 regular season games per year (additional for playoffs) and average approximately three preseason and exhibition games per year. The anticipated cost is expected to be between \$130,000 and \$240,000 per year, or \$1.3 million to \$2.4 million over the ten-year term.

Digital Signage Plan: City staff would present to City Council for consideration a proposed program and required amendments (if any) to the City Code to provide the Investor Group with up to five digital sign locations (see also *Team Training Complex and Youth Academy* section below). City staff would recommend the adoption of enabling ordinances, if necessary, to allow for such signs under the provisions of SB31 and section 5272 of the California Business and Professions Code. There would be no cost to the City except for the administrative cost in processing the revisions to the Code and any necessary leases or contacts.

Team Training Complex and Youth Academy: The Investor Group has committed to work in good faith to locate the Team's primary training complex in the City of Sacramento. The training complex would include a new, first-class, state-of-the art facility that would serve as the primary training complex for the Team, host an MLS Youth Academy program, and provide for priority community use (Training Complex). Should the Investor Group develop the Training Complex in the City of Sacramento within two years of the announcement of the award of the Team, the Investor Group will identify a suitable site for one additional digital sign (six total). Once identified City staff will present to City Council for consideration the proposed program and required amendments (if any) to the City's sign code to provide for the additional digital sign location in consideration of the substantial community benefits the Training Complex will provide.

Community Benefit Programs:

Regional Business and Employment Program: The Investor Group and its selected construction contractor would develop regional business and employment goals and programs in partnership with community stakeholders and the City that are generally consistent with the programs used for the construction of the Golden 1 Center. The effort would include at a minimum:

- Construction apprenticeship programs, including specific goals and programs for recruiting and hiring of local disadvantaged workers into apprenticeship programs.
- Specific goals and programs for hiring local and small business enterprises for professional services, construction, and supplies.
- Outreach, education, and training workshops for recruitment of disadvantaged workers, qualified subcontractors, and targeted businesses.
- Approaches to reduce entry barriers and augment hiring pathways to match local small business capacities.

Disadvantaged Persons / Youth Hiring: Following the opening of the stadium, the stadium operator and the team would use commercially reasonable efforts to develop and implement programs to recruit, train, and employ disadvantaged persons and youth within Sacramento.

Charitable Contributions: Cash contributions on average of \$75,000 per year to Sacramento charities and non-profits. Total cash contribution of approximately \$4.5 million over the 35-year term.

Free Community Youth Soccer Clinics: Club will host 1,000 youth participants per year at club clinics in underserved neighborhoods in Sacramento (estimated at \$50 per person per clinic). Total cash value of \$3 million over the 35-year term.

Complimentary Tickets: Donations of 100 tickets per game for use of Sacramento charities and non-profits. Total donated value of \$3.6 million over the 35-year term.

Youth Club Non-Profits Donations of Equipment and Gear: Donations of equipment and gear valued at \$50,000 to an estimated 500 deserving Sacramento youth recipients per year. Total estimated value of \$3 million over the 35-year term.

Soccer Field and Futsal Court Construction: Annual builds or upgrades of one soccer field or futsal court in Sacramento for public use. Total value of \$1 million over the 35-year term.

Volunteer Hours: Club staff commitment of 2,500 volunteer hours per year (average of \$20 per hour) to Sacramento charitable organizations. Total estimated value of \$3 million over the 35-year

term.

Food Service Fundraising Opportunities: Fundraising of \$75,000 per year to Sacramento non-profit organizations via food service concessionaire fundraising opportunities. Total expected contribution of \$4.5 million over the 35-year term.

Public access: Public access to the open space, park, and trail areas around the Stadium when the site is not scheduled for an event.

Public Sector Tickets: The Investor Group would provide the City with ten club seats and associated parking to all ticketed events held at the stadium. Distribution of tickets would be subject to the City's ticket distribution policy.

Policy Considerations: Successfully securing a new major league sports team and the development of a new MLS-caliber multi-purpose outdoor stadium in the Downtown Sacramento Railyards is expected to contribute to the cultural and economic development of Sacramento and the region. A downtown stadium would further anchor downtown as the region's center of entertainment and cultural activity and provide Sacramento with a first-class outdoor venue for sports, entertainment, and cultural events. Both the MLS team and the construction of the stadium would provide direct and indirect jobs as outlined in the Economic Impacts section below. In addition, the stadium and event activity may accelerate other investment and development in the Railyards, Downtown, River District, and other areas. Significant community benefits and quality of life through sports and entertainment would be a direct result of this effort.

Economic Impacts: The \$252 million MLS stadium construction project would create between 1,310 and 2,639 jobs based on two generally accepted economic impact analysis models typically used by the City. The lower job estimate is based on local job estimates while the higher figure represents primarily regional and statewide job growth. The infrastructure construction could generate between 108 and 245 jobs during construction. The economic impacts associated with the development on the adjacent 17 acres could have an impact that is multiple times that of the stadium and infrastructure development. Additionally, a typical MLS franchise and stadium operation provides between 75 and 120 direct full-time jobs, over 800 part-time jobs, and also generates economic output from its operations.

The total economic output of the stadium construction project is estimated at between \$214 million locally and \$390 million regionally over the construction period. Total economic output includes direct and indirect output as well as induced activities. This includes such items as construction and consumer spending, transfers, wages, tax revenues, and transactions, among others. This does not include the benefits associated with any ancillary development spurred within the immediate area nor does it reflect spending benefits associated with ongoing team or stadium operations. The economic output of the infrastructure construction is estimated at between \$16.7 million locally and \$41.5

million regionally.

The local economic benefits are estimates calculated using a calculation tool developed by the Center for Strategic Economic Research (CSER). CSER utilizes the IMPLAN input- output model (2009 coefficients) to quantify the economic impacts of a hypothetical \$1 million of spending in various construction categories within the City of Sacramento in an average one-year period. Regional figures were calculated using IMPLAN, a leading national provider of economic impact data. These are standard estimators used by the City. These estimates are preliminary, and these models provide relative estimates of jobs and outputs. A more comprehensive economic impact analysis and actual economic results could differ significantly from these estimates. Neither the City of Sacramento, CSER, nor IMPLAN are responsible for consequences resulting from such differences.

Environmental Considerations:

California Environmental Quality Act: The actions in this report are exempt from the California Environmental Quality Act (CEQA) under CEQA Guidelines (14 Cal. Code Reg. Section 15000 et seq.) as they concern proposed business terms for future agreements. The stadium project has been reviewed and approved under CEQA. If the Council approves the Term Sheet, elements included in the Term Sheet such as digital billboards and a practice facility would be subject to CEQA analysis.

Sustainability: The proposed site is well suited for a sustainable development. Regional Transit's light rail system runs along the western boundary of the proposed site and a station is proposed at the stadium. The Investor Group seeks to achieve LEED-equivalent energy and environmental design to the extent feasible.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: Approval of the term sheet would allow the Investor Group to present a competitive proposal to MLS for the acquisition of an expansion professional soccer team and provide for a new state-of-the-art outdoor stadium downtown. The stadium development and events would serve as an economic catalyst for, and contribute to the continued revitalization of, the Downtown Railyards, the River District, the greater downtown area, and the region. It would ensure that the City has a suitable outdoor entertainment and sports venue and enhance the entertainment and cultural opportunities in downtown and the region. The proposed terms provide for private stadium financing with public support without putting the general fund at risk, and while providing economic benefits to the City, including sales taxes, property taxes, parking revenue, and jobs.

Financial Considerations: If the project moves forward, staff will present Council with recommendations on the City's financial obligations as summarized below.

The stadium project would be privately financed by the Investor Group. The City will waive the costs associated with the stadium building-permit-related administrative, processing, and inspection fees and charges, estimated at \$1.8 million. The City would reimburse the Investor Group for an amount equal to the City-imposed building excise taxes paid on the stadium construction pursuant to Chapter 3.36 of the Sacramento City Code, estimated at \$181,000. The City would reimburse the Investor Group for any use-tax generated by the project and received by the City. A similar arrangement with the construction of the Golden 1 Center generated approximately \$457,000.

Area-wide infrastructure would be privately financed by the Investor Group. The City would pursue the establishment of an Enhanced Infrastructure Financing District (EIFD) to reimburse the Investor Group for privately-financed infrastructure identified in an Infrastructure Finance Plan approved by the EIFD. The EIFD's contribution to infrastructure costs would be limited to new incremental property tax revenue that was directly derived from the stadium and other development proposed for approximately 31 acres of the Railyards. Reimbursement would not exceed the inflation-adjusted cost of the infrastructure improvements minus any publicly funded infrastructure grants. The City has no financial obligation if insufficient incremental property tax revenue generated is inadequate to cover infrastructure costs.

The City would waive reimbursement for municipal services for off-site police, fire, emergency medical services, traffic control, and code enforcement for MLS events for up to a maximum of \$300,000 per year for a ten-year period. If City municipal service costs exceed \$300,000 in any fiscal year, the Investor Group would reimburse the City. The \$300,000 per year is the maximum annual amount. The projected amount is expected to be lower.

Local Business Enterprise (LBE): None required at this time. However, under the preliminary terms of agreement, Investor Group in cooperation with its general contractor, would establish goals for regional business and employment programs as described above.