



## **Request for City Council Committee Action from the Department of Finance and Property Services**

**Date:** March 24, 2015

**To:** Council Member Lisa Goodman, Chair, Community Development and  
Regulatory Services Committee

**Referral to:** Council Member John Quincy, Chair, Ways and Means Committee

**Subject:** Target Center Renovation Project

**Recommendation:** Authorize staff to execute Renovation Agreement, with terms  
modified from previously approved Term Sheet, as described below

### **Key Previous Directives:**

- June 27, 2014 – Authorized the selection of Mortensen as Construction Manager for the project
- May 23, 2014 – Authorized the selection of the team of Architectural Alliance and Sink, Combs, Dethlefs as architect and designers of the project
- December, 7, 2013 - Authorized the selection of Tegra as Owner's representative for the project
- November 12, 2013 – Approved Arena Renovation Term Sheet, authorized execution of Renovation Agreement, authorized execution of a rent amendment to the Playing Agreement, made appointments to "Design Group", and designated project manager
- February 22, 2013 – Authorized extension of the Health Club lease
- December 4, 2009 – Authorized issuance of taxable general obligation tax increment refunding bonds
- June 16, 2007 – Authorized transfer of property and administrative oversight from Minneapolis Community Development Agency to the City, via Minneapolis Convention Center
- April 13, 2007 – Selected an affiliate of AEG Facilities, Inc. ("AEG") as Arena operator, and authorized various agreements with AEG
- March 10, 1995 – Authorized Target Center Purchase Agreement, related lease, operating and financing agreements, and issuance of tax-exempt general obligation bonds necessary to acquire the Arena

### **Department Information**

Prepared by: Pam McKenna, Nikki Newman, Kevin Carpenter, Jeff Johnson

Approved by: Spencer Cronk, City Coordinator \_\_\_\_\_

Presenters in Committee: Kevin Carpenter/Jeff Johnson

## Reviews

- Permanent Review Committee (PRC): Approval NA\_ Date \_\_\_\_\_
- Civil Rights Approval Approval NA\_ Date \_\_\_\_\_
- Policy Review Group (PRG): Approval NA\_ Date \_\_\_\_\_

## Financial Impact

- No appropriation adjustment to 2015 Target Center Arena Fund budget required
- Other financial impacts as described in Supporting Information section below

## Community Impact

- Neighborhood Notification
- City Goals
- Comprehensive Plan
- Zoning Code
- Other

## Supporting Information

The Target Center renovation project continues to move forward with the primary objective of maintaining this City resource as a viable entertainment venue for the next two decades. The structure of the renovation process has been in place and working towards completion since the Council approval of the Arena Renovation Term Sheet in November of 2013.

A Design Group was approved as part of the Term Sheet and includes three (3) members of the Timberwolves and Lynx Basketball organization and three (3) members appointed by the City Council. The Design Group then recommended a design team and construction manager through separate Requests For Proposal processes. The City Council approved Architectural Alliance with Sink Combs Dethlefs as the project architects and M.A. Mortenson Company as the construction manager for the project.

The Design Group recently completed the Schematic Design phase, which has helped further refine the project in terms of scope, cost, schedule, and partner participation. The report outlines an evolved set of project components so that a final Renovation Agreement between all parties can be executed. This will lead us to the next phase of Design Development, a Guaranteed Maximum Price (GMP) construction contract, and ultimate approval of the final project plan by the City Council at a later date. The Renovation Agreement brings the visions outlined in the Term Sheet into reality, taking into account the detail of the current Schematic Design.

The Design Group worked with the extended design team to go through a number of iterations of designs for a wide variety of possible program elements. Periodically, at a number of points in the process, detailed cost estimates for the then-current design were provided, to understand where the project is relative to the approximately \$99 million project budget. The most recent detailed cost estimating effort was completed in February, 2015, based on a complete set of fresh schematic designs.

Throughout the process, the Design Group has worked diligently to balance the often conflicting goals of providing a transformational refreshing of the Arena (to extend its life as an attractive and economically feasible venue for entertainment events and its major basketball tenants, the Timberwolves and Lynx), while also being disciplined regarding costs and staying within both the renovation project budget and the future capital investment commitment of \$50 million contemplated by the Term Sheet.

However, it has become apparent to the Design Group that, due primarily to the dramatic increase in the cost of construction over the last few years, and the expectation that this escalation will likely continue over the period of the renovation construction itself, it is necessary to revisit the mix between investing now vs. investing in the future. In addition, as the design team and its consultants have dug into the details, it has become apparent

that certain required elements of the renovation project not covered in the Term Sheet (for example, ADA-driven enhancements) will be more costly than anticipated.

Accordingly, City staff are requesting and recommending changes in certain aspects of the budget and business terms for the proposed renovation project. Overall, the proposed changes will dedicate more funding to the initial renovation of the facility to deliver the best possible renovation sooner rather than later. This is balanced by a reduction in the amount that is proposed to be the City's contractual obligation to spend as future capital commitments. The proposed changes are as follows:

	<u>Original Term Sheet</u>	<u>Revised Proposal</u>	<u>Change</u>
• Construction costs	\$80.5m	\$102.8m	\$22.3m
• Other project costs	<u>\$18.4m</u>	<u>\$26.1m</u>	<u>\$ 7.7m</u>
• Total project costs	\$98.9m	\$128.9m	\$30.0m
• Cost allocations			
- City	\$49.5m	\$74.0m	\$24.5m
- Team	\$44.0m	\$49.0m	\$5.0m
- AEG	\$5.4m	\$5.9	\$0.5m
• Future capital commitment from City			
- Arena	\$25.0m	\$10.0m	\$(15.0m)
- Basketball	\$25.0m	\$10.0m	\$(15.0m)
• Team lease extension	2032	2035	
• AEG operating agreement extension	2032	2035	
• Financing	All City	Each party independently	

City staff is recommending revisions to these business terms as well:

- Each of the Team and AEG agree to extend their respective Agreements until 2035.
- In conjunction with the extension of the AEG operating agreement, adding an inflationary component to the maximum annual operator reimbursement, adjusting the "profit-sharing" formula between AEG and City to provide for 50-50 sharing of any net income from Arena operations above a certain threshold, and providing, in certain circumstances, some additional operating support to AEG during the significant construction years of 2015 and 2016.
- Raising the dollar threshold for when a sale of the Timberwolves triggers the provisions for reimbursement of City investment in the renovation project from \$450m to \$625m.
- Incorporating a liquidated damages remedy for failure to make annual appropriations for Capital Improvement Expenditures.

- Accommodating the expedited installation of the scoreboard component of the renovation project. The Team will front the upfront costs, subject to reimbursement when the project go-ahead decision has been made. Subject to execution of the Renovation Agreement and receipt of acceptable bids, the City will approve a “mini-GMP” with Mortenson for the cost of the work (estimated at approximately \$13 million) and place the order in due course. Installation could occur as early as August.

In essence, the proposed revisions and increase to the renovation project budget (and corresponding decrease to the future capital commitments of the City) mitigates significantly the construction cost escalation risk and allows for a more complete and satisfactory renovation now. Subject to the next phases of detailed design work, as well as final cost estimating culminating in the GMP contract with Mortensen, the Design Group believes that all significant design elements can be reasonably accommodated within the revised construction budget. In addition, the Design Group has a defined set of “add-alternates” available (primarily around additional seat replacement and the possibility of adding a skyway between ramp A and the Arena) should our continued diligence and value-engineering provide room in the budget for these alternates to be accommodated without sacrificing the quality of the existing program elements.

By accelerating a portion of the City’s committed future capital funding into the renovation project now, City members of the Design Group believe the City captures value in two important ways. First, it saves on construction costs by providing a more condensed – and therefore efficient and effective construction process – as we will be touching all the elements at once, rather than stretching them out over a number of years. Second, all parties will be able to more completely capitalize on the enhanced competitive positioning of the renovated Arena in the marketplace earlier than what would otherwise be the case.

In addition, with both the Team and AEG agreeing to provide their own financing for their portion of the capital costs of the renovation project, the City will issue less general obligation bonded debt than was contemplated in the Term Sheet. Also, by extending the duration of both the Team lease agreement and the AEG operating agreement through 2035 rather than 2032, the City not only secures these important partners for three additional years, but also has additional years to amortize our debt, thereby lowering annual debt service costs.

To clarify expectations around future capital and maintenance expenditures related to the Arena, it is City staff’s belief, (as well as AEG’s), that over the 20-year period through 2035, significant additional investments beyond the proposed future commitment of \$20m will be required. In the recent past, annual capital/maintenance appropriations have averaged approximately \$5 million and staff would anticipate that after the renovation project, generally similar levels of requests will be forthcoming through the annual budget process.

If these proposed revisions to the terms of the renovation project are acceptable and approved, City staff, the Team and AEG are prepared to execute a Renovation Agreement that reflects these adjusted terms. That agreement sets the contractual framework for moving ahead with the renovation project, including the construction elements anticipated to occur in the summer of 2015. The bulk of the renovation work would occur in the summer of 2016, with final completion of all elements of the renovation trailing into early 2017.