

City of Minneapolis
Request for Committee Action

To: Community Development & Regulatory Services
Date: 3/1/2016
Referral: Ways & Means
From: Minneapolis Convention Center
Prepared by: Jeff Johnson
Presented by: Jeff Johnson
File type: Action
Subcategory: Contracts & Agreements

Subject:

Target Center Renovation Project authorization to proceed and related actions.

Description:

1. Approving the Final design, budget, and schedule for the Target Center Renovation Project generally described in the attached exhibits.
2. Approving Mortenson's Guaranteed Maximum Price (GMP) of \$102.8 million and authorizing proper City officials to enter into an amendment to the Construction Manager at Risk Agreement incorporating the GMP and other material terms outlined in this report.
3. Authorizing the proper City officials to enter into the following additional agreements and amendments contemplated by the Renovation Agreement:
 - *Project "Go Ahead Letter"*
 - *Financing Disbursement Agreement*
 - *Target Center Operating Agreement Amendments*
 - *Target Center Playing Agreement Amendments*
4. Authorizing the proper City officials to enter into amendments to the following project agreements to incorporate changes necessitated by the revised construction schedule:
 - *Project Architect Agreement Amendments*
 - *Project Owners Representative Agreement Amendments*
 - *Outside Legal Counsel Agreement Amendments*
5. Authorizing the proper City Officials to enter into a contract with Berkley Assurance Company for Owners Protective Professional Indemnity insurance based on acceptance of their low bid.
6. Authorizing the appropriation of \$128.9 million in project costs incurred to be repaid by City financing, AEG payments, and Timberwolves/Lynx payments as outlined in the Renovation Agreement.
7. Authorizing the appropriation of additional funds through the Target Center Fund for City Permit Fees, Sales Taxes, Financing Fees, and other non-GMP expenses.
8. Authorizing the proper City officials to execute a Pedestrian Bridge Easement Agreement with the Minnesota Ballpark Authority and the Twins organization.

Previous Actions:

- February 26, 2016 – Authorized City Finance Officer to issue bonds for the Target Center Renovation.
- January 25, 2016 – Minneapolis City Planning Commission approval of site plan, location/design review, and consistency with the comprehensive plan.
- March 24, 2015 – Authorized staff to execute Renovation Agreement, with terms modified from previously approved Term Sheet.
- 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

Ward/Address:

Ward 3

600 First Avenue North, Minneapolis, MN 55403

Background/Analysis:

Renovating the Target Center will maintain this City resource as a viable entertainment venue for the next two decades for far less money than would be needed to tear down the building and replace it with a new facility. For several years, the partnership of the City, AEG Facilities (AEG), and the Timberwolves/Lynx Basketball organization (Team) have worked through many details to bring forth a sensible renovation that will modernize the facility in its aesthetics, operation, technology, and fan experience. This partnership brings forth today a \$128.9 million project for final approval.

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 \$20 million as approved by the City Council in the Renovation Agreement on March 24, 2015.

The Renovation Agreement was adopted by the City Council with the following basic components:

- \$128.9 million project with a construction costs of \$102.8 million
 - City's portion \$74 million
 - Timberwolves/Lynx's portion \$49 million
 - AEG's portion \$5.9 million
- Agreements with Timberwolves/Lynx and AEG are extended through 2035
- Design Group is tasked to invest \$20 million in City capital improvement funds over the life of the agreement
- If the Timberwolves/Lynx are sold to a new owner, the City can under certain terms receive reimbursement dollars from the sale.
- City's financial arrangement with AEG is modified to provide for operating budgetary control during construction years, a revised operator reimbursement formula, and a revision to the annual profit sharing formula that allows for the City to capture a 50% share annually.
- City's agreement with the Team is updated to include revised terms concerning damages for breach of contract.

The amendments described in today's actions were all contemplated and prescribed within the Renovation Agreement. New provisions in the CMaR agreement incorporate a liquidated damages provision that addresses future delays in reaching the substantial completion date of the project. All of the professional service agreements are updated with new extended timeframes and the additional fees that accrue given the additional time and the scope that was added as part of the Renovation Agreement. Exhibits were also updated based on new information.

In regards to the GMP itself, the \$102.8 million in construction costs provides for a significant updating to the Arena and its infrastructure. On the outside, the main entrance to the facility will shift to the corner of 6th Street and 1st Avenue, and a spacious, welcoming glass enclosed atrium will be constructed. The entire exterior will be redone, including repositioning many of the signage components and modernizing the appearance of the building from all sides. In conjunction with the installation of more loading dock space, the street pedestrian experience on 7th Street along and between 1st and 2nd Avenue will be reimaged to provide for a safer and more enjoyable experience around the arena and as a connection to Target Field. Inside, the mechanical and technology systems will get an overhaul, bringing the building up to current industry standards and providing better energy conservation techniques, but also providing for a more pleasant and inviting customer experience. In addition, the operating logistics for holding events will be enhanced via the addition of elevators and back of house spaces. The suite level will be renovated with more flexible seating options and amenities more comparable to the Arena's competitors. Other premium spaces will be enhanced with greater food and beverage options and amenities.

Ultimately, a tight project budget led to decisions to keep certain items out of the GMP; prominent among those are the addition of a new skyway between the Arena and Ramp A, as well as additional premium clubs, and a complete replacement of seats in the arena bowl. Those items are listed among the Add/Alternates in the GMP. Add Alternates will only be accommodated if contingency dollars remain in the project or other scope is cut as this project must remain within the \$102.8 million construction cap.

In addition to the Renovation Agreement items on this action, a Pedestrian Bridge Easement agreement will help define ownership rights, operations activity, and construction and maintenance protocols for the pedestrian bridge constructed adjacent to the Target Center for pedestrian access to Target Field. Discussions related to this easement have been ongoing with the Minnesota Ballpark Authority and the Minnesota Twins Baseball organization for several years, but the necessity of

specific covenants due to the renovation of the Target Center spurred all organizations to finalize this agreement. This easement agreement will better align the use and future of the pedestrian bridge with City ordinances and operations while also ensuring that there is proper access to Target Field during the life of the stadium.

Subject to financing, moving ahead on these actions today, will allow construction to start in late spring of 2016 and end in the late fall of 2017. The Target Center itself will remain open for a majority of the renovation so that it can continue to be the strong economic driver for Minneapolis that it is today. The building will need to be closed for one month in late summer 2016 and for approximately five months in the summer of 2017 due to some of the more invasive renovation activities. The new Target Center will be ready for the start of the 2017-18 Minnesota Timberwolves basketball season in October of 2017.

Financial Review:

No additional appropriation required, amount included in current budget.

- Future budget impact anticipated.**
- Approved by the Permanent Review Committee.**
- Meets Small and Underutilized Business Program goals.**

Attachments:

1. Architectural presentation of Target Center renovation project