

Memorandum



DATE May 30, 2008

TO Members of the Economic Development Committee: Ron Natinsky, Chair
Tennell Atkins (Vice-Chair), Dwaine Caraway, Jerry R. Allen,
Sheffie Kadane, Mitchell Rasansky, Linda Koop, Steve Salazar

SUBJECT Reunion Arena Status - Briefing

On Monday, June 2, 2008 the Economic Development Committee will be on Reunion Arena Status.

A copy of the briefing is attached. Staff will be available at the meeting to make the presentation and respond to your questions.

Should you have any questions, you may contact me at 214/670-3308.


Ramon Miguez, P.E.
Assistant City Manager

C: The Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Ryan S. Evans, First Assistant City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor
Judge Jay Robinson, Judiciary
A.C. Gonzalez, Assistant City Manager
David O. Brown, Interim Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Dave Cook, Chief Financial Officer
Jeanne Chipperfield, Interim Budget Director, Office of Financial Services
Karl Zavitkovsky Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Lee McKinney, Assistant Director, Office of Economic Development
Helena Stevens, Assistant to the City Manager

REUNION ARENA STATUS

Economic Development Committee
June 2, 2008

PURPOSE

- To update the City Council Economic Development Committee on the status of Reunion Arena.

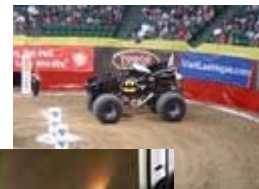


Background

- ❑ Center Operating Company (COC) in September 1998 entered a five (5) year management agreement with the City of Dallas to operate Reunion Arena.
- ❑ The Reunion Arena management agreement allowed COC with 60 days notice to terminate the agreement. The City was allowed to terminate the agreement upon 60 days notice but only if the land was needed for purposes other than operating Reunion Arena as a sports/entertainment venue.
- ❑ On July 17, 2002, COC served the City formal termination notice of the agreement to manage Reunion Arena to be effective September 30, 2002, citing fiscal losses of \$1.7 million.
- ❑ City/COC Agreement under section 15.1 requires the City to give COC a first right of refusal to book all arena-type events that are interested in using Reunion Arena.
- ❑ City/COC Agreement requires COC to make annual payment of \$3.4 million to the City for the use of American Airlines Center. This annual payment is deposited into the General Fund.

Reuse Options Explored and Presented to Council – August 2002

- A 1994 study conducted by Ellerbe Becket, Corgan Associates/Austin Commercial and Turner Construction reviewed six options
- Options included –
 - Exhibition space
 - Theater/exhibition space
 - Parking garage
 - Office/retail/parking
 - Casino shell



Reuse Options Explored and Presented to Council – August 2002 cont.

- Additionally, the following considerations were assessed:
 - Demolition of the Arena and fill site
 - “Mothball” Reunion Arena
 - Explore selling Reunion Arena
 - Issue a Request for Bid for private management
 - A private management company would be required to adhere to the City/COC Agreement as it relates to paragraph 15.1 – COC first right of refusal provision.

Additional Considerations - August 2002 Briefing

- Projected initial operating losses to be \$2.3 million annually.
- To continue Reunion Arena operation as an ancillary facility to the Convention Center and used as a second downtown arena venue to capture new events/meetings/conventions.
- Connecting Reunion Arena to DCC and development of a convention center hotel may enhance the City and DCVB's capability to expand its convention/tradeshows and meetings business.
- City/COC Agreement – first right of refusal provision (paragraph 15.1) will impact Reunion Arena's capability to secure event activity.

Economic Development Committee

Briefing – September 2006

- Reunion Arena operating losses continue - \$900k – \$1.6m.
- City/DCVB continued to aggressively market Reunion Arena as a public assembly venue. However, City/COC Agreement restrictions continue to impact Reunion Arena's capability to achieve financial self-sufficiency.
- Staff recommendation – cease to lease Reunion Arena beyond June 30, 2008.
- Dispose of Reunion Arena – Sell or redevelop.
 - City and Hunt/Woodbine Master Agreement consideration
 - City/COC Agreement

Competition

- In addition to the City/COC Agreement restrictions on Reunion Arena event activity, competition continues to expand in the DFW market-
 - Existing – Nokia, Ft. Worth Convention Center Arena, Superpages.com Amphitheater (Fair Park), House of Blues, Gilley's, Palladium, Garland Events Center, SMU – Moody's Coliseum/McFarlin Auditorium, Pizza Hut Park (Frisco) and Cotton Bowl
 - On the horizon – Cowboy Stadium (Arlington)
 - Other developments – current Cowboy stadium (Irving)

Financial Performance

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenue	\$1,773,495	\$ 931,778	\$ 698,390	\$ 877,098	\$ 742,232
Expenses*	<u>2,652,717</u>	<u>2,375,541</u>	<u>2,306,373</u>	<u>2,254,181</u>	<u>1,611,407</u>
Income/ (Loss)	<u>(\$ 879,222)</u>	<u>(\$1,443,763)</u>	<u>(\$1,607,983)</u>	<u>(\$1,377,083)</u>	<u>(\$869,175)</u>

*Expenses include payments to Woodbine equal to the amount of their property taxes as required in the City/WDC parking lease for Lot B, H and part of Lot E.



Best Estimate for Future Financial Performance

- Based upon the historical revenue/expense experience, we believe Reunion Arena is operating at its optimum performance. Continued operating losses ranging from \$900k - \$1.5m annually will continue into the foreseeable future
- These operating losses do not take into account capital requirements for such items as roof, chiller or other mechanical equipment replacement, capital maintenance such as steel roof structure, exterior walls/doors, etc.

Summary

- ❑ Reunion Arena financial performance has exceeded initial projections.
- ❑ Reunion Arena's meetings, family shows, alternative sporting events and high school events has attracted approximately 1,870,000 guests to the city center from September 2002 through May 2008.
- ❑ First right of refusal provision (paragraph 15.1 City/COC Agreement) will continually impair Reunion Arena's ability to significantly improve its financial performance.
- ❑ Financial support for Reunion Arena from the General Fund and/or Convention Center will be required for the foreseeable future.

Considerations For Sale

- If Reunion Arena is conveyed, it must be deed restricted in accordance with Section 15.1(c) of the City/COC Agreement.
- The City and Hunt/Woodbine Master Agreement provides for the disposition of Reunion Arena as follows:
 - Should the City declare Reunion Arena as surplus property, Hunt/Woodbine has a 60 day option to purchase the property from the city at a purchase price calculated under the City and Hunt/Woodbine Master Agreement. However, should a disagreement in property value occur between the parties, either party retains the right to seek other remedies for resolution.
 - Updated appraisals would be needed
 - Determine other conditions for a property sale (would likely require demolition prior to sale)
 - City Council authorization
 - Develop bid packets, should Hunt/Woodbine fail to exercise its purchase option consistent with the City and Hunt/Woodbine Master Agreement
 - Sealed bid process

Considerations cont.

- City Council evaluation of bids received.
- Should the City Council determine to sell Reunion Arena, the existing City/COC Agreement would prohibit the City of Dallas from constructing a public assembly venue similar to Reunion Arena.

Recommendation

- With City Council Action on May 14, 2008, Reunion Arena is currently not considered as part of the Convention Center Hotel development
- Staff would prepare necessary documents to sell Reunion Arena consistent with existing agreements with Hunt/Woodbine and COC.
 - As a pre-condition for a sale, Reunion Arena will most likely need to be demolished

Next Steps

- Staff will develop schedules and documents for the following:
 - Sale of Reunion Arena following demolition
- Economic Development Committee would be briefed periodically throughout the process

Questions



5/30/2008

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