



## Legislation Text

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**File #:** 16-213, **Version:** 1

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### **AWARD OF REQUEST FOR PROPOSAL 16-13 AND APPROVE EXPENDITURE OF FUNDS FOR ARENA MANAGEMENT WITH AEG MANAGEMENT GLENDALE, LLC**

Staff Contact and Presenter: Kevin R. Phelps, City Manager

Staff Contact and Presenter: Michael D. Bailey, City Attorney

Staff Contact and Presenter: Tom Duensing, Assistant City Manager

#### **Purpose and Recommended Action**

This is a request for City Council to authorize the City Manager to enter into an agreement with AEG Management Glendale, LLC, for management of the City-owned Gila River Arena and to approve the expenditure of funds in an annual amount not to exceed \$5,600,000 for Arena Management services. The initial term of the agreement will be for five (5) years with an additional five (5) year renewal option, subject to City Manager approval.

#### **Background**

The current amended Professional Management Services and Arena Lease Agreement (Arena Agreement) terminates June 30, 2017. Included in the current agreement is the City's option to replace the Arena Manager at any time after June 30, 2016.

In order to enter into an arena management contract that is market-based, the City issued a request for proposal (RFP) on October 19, 2015, for potential arena managers with original responses due back to the City on December 11, 2015. Changing an Arena Manager is a complicated, multi-month undertaking, and the City endeavored to ensure a) a market-based agreement could be developed, b) the City could minimize its financial risk, and c) the Arena Manager could maximize the potential of the facility and Westgate.

The City received three responses to the Arena Management RFP, coordinated subsequent proposer presentations, and based on an extensive evaluation process, the City issued a Notice of Intent to Award to AEG Facilities ("AEG") on February 3, 2016. The City has been in contract negotiations with AEG for an Arena Management Agreement that is advantageous to the City and to AEG.

#### **Analysis**

Based on the responses to the RFP, staff is recommending award of RFP 16-13 to AEG Management Glendale, LLC (AEG Glendale). The proposed agreement with AEG Glendale is an "at risk operator structure" in which AEG Glendale would be responsible for the operations of the Arena, retaining all operating revenues and accepting responsibility for all operating expenses, including funding any potential operating losses beyond one year. In addition, there is no management fee payable to AEG Glendale. Rather, the proposed agreement

contains a provision to share in EBITDA which is defined in the agreement as gross operating revenue less operating expenses, or profit sharing. This arrangement allows AEG and the City to split EBITDA, based on an agreed to formula, and incentivizes AEG Glendale and the City to maximize attendance at the facility.

The financial highlights of the agreement are as follows:

- The City shall contribute a total of \$5,600,000 per year toward the operating revenues of the facility.
- EBITDA (gross operating revenue less operating expenses) will be split between AEG Glendale and the City as follows:
  - First, Five Hundred Thousand Dollars (\$500,000) to Arena Manager,
  - Second, Five Hundred Thousand Dollars (\$500,000) to the City,
  - Third, fifty percent (50%) to Arena Manager and fifty percent (50%) to the City until each has received One Million Dollars (\$1,000,000),
  - Fourth, any negative EBITDA from the prior fiscal year to Arena Manager (if applicable),
  - Fifth, and thereafter, seventy-five percent (75%) to Arena Manager and twenty-five percent (25%) to the City.
- As the Arena will remain City-owned, the City will contribute at least \$500,000 toward capital improvements at the facility.
- AEG Glendale will establish and fund a \$500,000 event development fund to bring non-AEG Live events to the Arena.

Other highlights of the agreement include:

- An annual operating budget will be submitted.
- An annual capital budget will be submitted, subject to City approval, as the Arena remains a City asset.
- A five-year capital plan shall be developed to ensure the facility is maintained at proper standards.
- The Arena General Manager shall be subject to City approval.
- Monthly and quarterly financial reports will be provided to the City.
- The City will have the right to audit the Arena operating results.
- AEG Glendale will have the ability to negotiate with IceArizona Hockey Co., LLC, which operates Arizona Coyotes to play its home National Hockey League games at the Arena.

### **Previous Related Council Action**

At the April 5, 2015 Council Workshop, AEG Facilities, LLC presented their history, business model, and vision for the City-owned Gila River Arena in anticipation of a management agreement with the City.

### **Community Benefit/Public Involvement**

As this agreement is considered an at risk operator structure, AEG Glendale bears the risk of the Arena operations. Alternatively, if AEG Glendale maximizes the profitability of the Arena, those profits (EBITDA) are split between AEG Glendale and the City. Therefore, the incentive exists to maximize the number of events and attendance at those events.

The Arena seats up to 19,000 for events and 17,125 for hockey games with 5,500 available parking spaces under its control. It serves as an anchor to the Westgate Entertainment District which is a destination center

for shopping, dining, entertainment, and commercial offices. The Arena is located adjacent to the University of Phoenix Stadium, home to the Arizona Cardinals of the National Football League (“NFL”), Fiesta Bowl, and Super Bowls XLII and XLIX. The public benefits by a highly-functioning Arena which supports the surrounding businesses, offers many entertainment options, and supports the local economy.

### **Budget and Financial Impacts**

The total costs for Arena Management and Arena capital is \$5,600,000 and \$500,000 per year beginning in FY16-17. Funding for FY16-17, dependent of Council approval, is as follows:

<b>Cost</b>	<b>Fund-Department-Account</b>
<b>\$5,600,000</b>	<b>General Fund, Non-Departmental, Professional &amp; Contractual (1000-11801-518200)</b>
<b>\$500,000</b>	<b>General Fund CIP, Capital Repair-Arena</b>