City of Detroit

CITY COUNCIL

DAVID D. WHITAKER
Director
(313) 224-4946

DIVISION OF RESEARCH & ANALYSIS
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 216
Detroit, Michigan 48226
(313) 224-4946
FAX: (313) 224-0368

ELIZABETH IRBY
Deputy Director
(313) 224-4946

TO: The Detroit City Council

FROM: David Whitaker
Legislative Policy Division Staff

DATE: August 29, 2013

RE: **THE MEMORANDUM OF UNDERSTANDING FOR THE CATALYST DEVELOPMENT PROJECT AND THE PROPOSED DOWNTOWN DEVELOPMENT AUTHORITY AMENDMENTS TO THE RESTATED TAX INCREMENT FINANCING PLAN AND DEVELOPMENT PLAN FOR DEVELOPMENT AREA NO. 1**

The Legislative Policy Division (LPD) was requested to review and report on the Memorandum of Understanding (MOU) for the development of a new hockey arena in Downtown Detroit and for development of the surrounding area. This MOU also impacts the following interrelated issues:

- Proposed expansion of DDA Development Area No. 1
- Termination of EDC projects
- Land Transfer Agreements

I. Introduction

LPD staff attended a meeting on August 9th hosted by the DEGC with Catalyst Development Project representatives[1] and the City's Law Department to discuss the Planning Commission recommendations (with conditions) to Council[2] as well as the project in general. The main components of the Project are the Events Center (hockey area) and Ancillary Development Area (surrounding area) envisioned as a walkable district comprised of commercial space with residential above. Amendments to the Downtown Development Authority (DDA) tax increment

---

[1] Mike McLauchlan, Vice President, Government Relations of Illitch Holdings, Inc.; Gregg Solomon, President/CEO of Motor City Casino & Hotel; Brian Holt and Steve Palms, both attorneys from Miller Canfield, and Douglass Diggs, consultant for ODM.

[2] The Catalyst Project representatives were not in favor of the commercial surface parking lot restrictions recommended by the Planning Commission at its August 1st meeting. It should be noted these restrictions only apply to the use of TIF funds, the use of private funds for this purpose is not restricted. Also, parking for developments in the ancillary area would be considered accessory to the development and would not be impacted if Council adopted the Planning Commission's recommendation.

financing plan and development plan for Development Area No. 1 are before this Honorable Body for consideration and play a major role in the Catalyst Development Project.

According to representatives from the Catalyst Development Project (Project), planning and preparation for the proposed Events Center and development of the surrounding Ancillary Area has been ongoing for at least the last seven (7) years with three (3) different options identified. One of the last pieces of land was acquired in December 2012 by Olympia Development of Michigan (ODM), an entity within the Illitch umbrella of organizations, which allows one of the alternate options to move forward.[3]

This option is being presented as the Catalyst Development Project and outlined in a Memorandum of Understanding (MOU) that has been presented to Council for its review although a formal vote is not required. The MOU is a non-binding agreement between the Detroit Downtown Development Authority (DDA), Wayne County, and Olympia Development of Michigan (ODM). Although the City is not a party to this agreement, and City Council will not approve it, representatives from the DEGC, Mayor's Office and Finance Dept. participated in negotiations. The MOU represents the material provisions expressing the mutual understanding between the parties regarding the creation of a public-private partnership to develop the Project that will include the following components:

1. Multipurpose Events Center;
2. Commercial, residential, retail and mixed use development adjacent to the Events Center; and
3. Public parking facilities, public infrastructure, and other public facilities.[4]

This framework is the foundation for the Concession Management Agreement (CMA) that will outline in detail the legal responsibilities of the parties involved. According to the MOU, the original term of the CMA will be 35 years, with twelve 5-year renewal options for an additional 60 years (total of 95 years) in favor of ODM.

Neither the MOU nor the CMA will come before Council for formal consideration. Separate City Council votes are required for: expansion of the DDA's Development Area No. 1 (discussed below); termination of the Motown Center and Villages at Woodward Project Plans; and various Land Transfer Agreements connected to the terminated projects as well as the proposed Catalyst Development Project.

DDA representatives are willing to share a copy of the proposed CMA with City Council for input it could consider while negotiations of the CMA continue. The DDA expects the CMA to be approved in November 2013. In addition, the City Council could track any development agreements contemplated for the Events Center and Ancillary Development projects through the DDA board minutes and offer any input to the DDA board members regarding these agreements.

II. Catalyst Development Area

The proposed Catalyst Development Area is included in the DDA's proposed Amendment to the DDA District Boundaries and Restatement of and Modification to the Tax Increment Financing

[3] The original plan would have placed the Event Center in the area behind the Fox Theater.

[4] Some of the provisions in this MOU are evolving.

Plan and Development Plan for Development Area No. 1, which is currently before this Honorable Body for consideration with a public hearing set for September 5, 2013 in the Planning and Economic Development Standing Committee. The proposed expansion is bounded generally by Fisher Freeway on the south, Woodward on the east, Charlotte on the north to the Lodge Freeway, and Grand River on the west side. In addition the Catalyst Development area includes the surface parking lots east of Woodward, west and south of Comerica Park; and the area south of the Fisher Freeway, and bound by Grand River and Clifford to Washington Boulevard, around Grand Circus Park to Madison and John R. Please refer to the map attached as Exhibit 1, which shows the footprint of the expanded area. Generally speaking it reaches from Motor City Casino to Comerica Park.[5] According to representatives from the Project, land acquisition in the Ancillary Area is ongoing. To date, condemnation proceedings have not been suggested to accomplish any of the land assembly in the DDA area.

For ease of discussion, LPD staff has separated the proposed Catalyst Development Project (Project) into two (2) distinct phases: the Events Center and the ancillary area.

<u>A. Events Center</u>

The Events Center (Center) component is indicated to be a 650,000 square foot National Hockey League caliber arena to include approximately 18,000 seats, including approximately 1,200 premium seats and an attached parking deck accommodating 500 spaces. The Center is to be located in the area generally bounded by: Woodward on the east, Fisher Freeway on the south, alley east of Clifford on the west, and Temple on the north. The Center will be designed as a multipurpose venue that can host a variety of entertainment events. The construction of the Events Center is anticipated to be completed by 2017.

Although the exact location and design of the Events Center is still under development, ODM anticipates the facility would be set back from Woodward at least 50 feet to provide a plaza area, the main concourse will be at grade level and the arena will be 30 feet below grade with a desire to construct a practice rink 30 feet below the arena ice. The exterior of the West side of the Center will be integrated at the pedestrian level with commercial space that will be open to the public even without a programmed event at the Events Center. The ground floors of the building, including of the attached parking garage, will feature approximately 10,000 square feet of retail space featuring a team store, restaurants and other retail.

As part of the MOU, all parties agree that all sports and entertainment activities now conducted at Joe Louis Arena (JLA), including Detroit Red Wings hockey, will be relocated to the new Events Center. The MOU provides that the City will agree to extend the JLA sublease through the 2015-2016 hockey seasons. The JLA sublease expired July 30, 2010 so there is a need for a lease from 2010-2017.[6] Negotiations are ongoing and a finalized lease is expected late 2013.

[5] LPD staff questioned the potential for concurrent construction on the Center and the M1 rail project and ODM anticipates M1 to be complete prior to the Center opening, and representatives from ODM are acutely aware of the tight coordination which would be necessary to obtain the success of both development projects.

[6] When this lease extension expires or when JLA is vacated, it will revert back under City control. At this time, future plans for that site are unknown, although any future uses to which JLA would be put are intended to be restricted by the parties pursuant to non-compete language as indicated in the MOU, despite the fact that the City is not a party to that agreement. If restrictions are permitted, the City should seek compensation for adaptive reuse or demolition, including for the JLA parking garage.

The DEGC has a lead role in negotiating the extension (working with the Mayor's Office and the Law Dept.). Outstanding concerns with JLA are addressed separately in this report.

The MOU also requires that the lease extension (or another agreement between the City and ODM) "shall include reasonable and mutually agreed-upon provisions limiting the ability of the Joe Louis Arena to compete with the Events Center with respect to the presentation of sports and entertainment events." The scope of this non-compete clause needs to be clarified further to determine its impact on the City's ability to re-purpose JLA.

Pursuant to the MOU, ODM, or its affiliate, will have control over the design and construction of the Center. It will develop the minimum requirements, designs, plans, specifications, and construction delivery systems in consultation with the DDA and Wayne County.

The MOU requires the general contractor (selected by ODM) to develop and administer programs for involving "Disadvantaged, Minority, Women, City and County Resident Owned Business" in both construction work and materials. The program must also include a minority apprenticeship program. ODM, the City and County must also agree on a third party to assist in the development and administration of this business assistance program. ODM will further develop and administer the program(s) that will involve these same businesses in services to be performed at the Events Center after completion of construction. Construction of the Events Center will also comply with Executive Order 2007-1 that requires 51% of employment to be provided to Detroit residents. A taskforce was formed to monitor the level of hiring of Detroiters during the construction of Comerica Park. Per DEGC, more concrete numbers for minority participation will be included in the CMA.

The Center, attached parking deck and all associated infrastructure, will be owned by the DDA. The DDA will enter into a Concession Management Agreement (CMA) with ODM (or its affiliate) that will provide for the construction, the operation and the management of the Events Center. The CMA will provide to ODM the exclusive right to use, manage and operate the Events Center and the Events Center Complex during the term of the agreement as well as **all revenues** derived from events, concessions, parking or other activities as set forth in the CMA. There is no indication in the MOU that this revenue will ultimately be shared with the City or DDA when the MSF bonds are retired. It would appear from the language that ODM's exclusive right to all revenues will extend through the term of the lease and any extensions. The MOU also grants ODM "all rights of ownership with respect to the naming of the Events Center Complex, including the right to sell, market, copyright, secure a trademark for or otherwise exploit the same." This will also be part of the CMA.

B. Ancillary Area

Olympia Development of Michigan (ODM) is also concerned and interested in the development of the area adjacent to the proposed Events Center and within the boundaries of the proposed Catalyst Development Area. It was indicated in meetings that ODM is committed to serious district master plan development for the area and is in the final strokes of hiring a development director and will hire a master planner to assist in transforming the Catalyst Development Area outside of the Events Center into a walkable district of vibrant commercial and residential developments. Project representatives have been in communication with MDOT to re-establish the pedestrian bridge on Park Avenue and close the on-ramp at Clifford and I-75. ODM indicated the need for a plan for a buffer on the service drive at Henry.

The MOU refers to a range of potential projects that could be included in the district plan including the development or redevelopment of vacant properties or abandoned structures. Aspirational projects listed include a wide range of facilities, including:

- DTE Substation
- Improvements to surface parking lots[7]
- New construction at Woodward and Sproat of office space (105,000 sq. feet) and retail space (35,000 sq. feet)
- Office and retail space of 25,000 sq. feet on Woodward
- Detroit Life Building renovation for retail and 35 residential units
- Blenheim Building renovation for retail and 16 residential units
- 1922 Cass Building renovation with 70,000 sq. feet of office space
- New construction of 20,000 sq. feet of hotel and retail facilities.

However, after the feasibility of these and other projects are assessed by the DDA and potential developers, different projects acceptable to the DDA may be substituted. In addition, other projects consisting of the development and redevelopment of other vacant properties or abandoned buildings within the Catalyst Development Area may be identified at a later date and funded with DDA/State revenue sources, subject to the approval of the DDA and the MSF.

It should be noted the DDA Plan currently includes surface parking lots behind the Fox Theatre. ODM would like the ability to operate surface parking lots until development can occur in the Ancillary Area. It has been suggested that 5-year sunset provisions for surface lots be inserted in the controlling documents and that such language be explored for the Planning Commission and City Council's consideration. A consensus was reached that a smaller group of individuals should meet with planning staff to work out details and proposals and discuss pros/cons of the other Planning Commission recommendations (additional site review versus zoning amendments). An update will be provided separately in future reporting on the subject.

III. Transfer and Control of Land

Under the current proposal, ODM would transfer its land in the Events Center footprint to the DDA for construction of the new hockey arena. As to land in the Ancillary Area, ODM would retain control and ownership of its land and the DDA would transfer its land to ODM "as developer for the purpose of redeveloping the neighborhoods around the Events Center Complex."[8] This transfer of DDA land would include the property the City is presently being asked to transfer to the DDA for inclusion in the Project.

The City-owned property within the Catalyst Development Project area would include property that was previously transferred to the Economic Development Corporation for two developments – Villages of Woodward Project, and the Motown Center Project. Neither of these development projects have been initiated and a request to terminate theses projects is pending before City Council as is the request to expand and modify the DDA area. The City-owned land that would have been utilized in the two projects would then be available for use in the proposed Catalyst project and need to be transferred in a separate land transfer agreement. The MOU at pg. 3, lines

[7] ODM is opposed to any surface parking lot restrictions, as it would like the flexibility to operate surface lots while development projects in the Catalyst Area are formalized. Also, ODM currently operates surface parking lots in the area behind the Fox Theatre.

[8] Memorandum of Understanding, Execution Copy, page 4, lines 13-14.

30-31, states that "each developer shall retain ownership of the land and improvements which are part of its project, unless another agreement has otherwise been made."

Although it does not contain a specific provision setting forth the powers of the local public body relative to the transfer of land, the Downtown Development Act does provide that the DDA may "[a]ccept grants and donations of property, labor or other things of value from a public or private source."[9] Based on this language, a reasonable interpretation could be made that this transfer is permissible. However, in meetings with DEGC and ODM representatives, the Law Department has raised concerns surrounding the City's ability to transfer real property to the DDA for less than fair market value (FMV) without ability to calculate direct economic benefit tied to the redevelopment of the parcels or substantiate the reasonableness of the economic nature of the transfer. This is not an issue for the land within the Events Center footprint because the arena will generate a direct economic benefit to the City.

As Council is aware, the Michigan Constitution prohibits the City from extending its credit for any private purpose or for a public purpose[10] not provided for by law.[11] This constitutional framework has been interpreted to prevent the City from transferring real property:

- For private use for less than FMV; or
- For less than FMV without "other good and valuable consideration" such as direct economic benefit;[12] or
- For less than FMV without specific authorization by law.

If the City receives value in return, there is no loan of credit under the Constitution regardless whether it is used for a public or private purpose.[13] The issue becomes the sufficiency of the consideration (i.e., the value given in the exchange) to ensure the transaction is appropriate and does not run afoul of the constitutional provisions. The City is specifically authorized to transfer real property to the following entities for less than FMV: Brownfield Authority,[14] Economic Development Corporation,[15] and the Detroit Land Bank Authority.[16]

City Council may wish to request an opinion from the Law Department on the proposed transfer of City-owned land within the Ancillary Area to the DDA including whether the City would

---

[9] MCL 125.1657(1)(l).

[10] *Gaylord v Gaylord City Clerk*, 378 Mich 273; 144NW2d 460 (1966), provides a general definition by quoting 37 Am Jur, Municipal Corporations, §120, p 734 "[A] public purpose has for its objective the promotion of the public health, safety, morals, general welfare, security, prosperity, and contentment of all the inhabitants or residents with the municipal corporation, the sovereign powers of which are used to promote such public purpose."

[11] MI Const. 1963, Art. VII §26 and Art. IX §18.

[12] For example, the City was able to transfer the Kern block to the DDA for the development of Compuware headquarters for less than FMV because of the direct economic benefit the City would derive from the project. In Compuware's case, the relocation of at least 4,000 employees to the headquarters had the direct benefit to the City of income taxes and economic activity of the employees in the Central Business District.

[13] *Alan v Wayne Co*, 388 Mich 210; 200 NW2d 628 (1972).

[14] Brownfield Redevelopment Financing Act, MCL 125.2657(1)(g) "Accept grants and donations of property, labor, or other things of value from a public or private source."

[15] Economic Development Corporations Act, MCL 125.1627 sets forth the powers of public bodies which contains a catch all provision at subpart 1(a) "anything necessary or convenient to aid" the EDC as well as specific provisions under subparts 1(b) and (c) allowing the City to lend, grant, transfer or contribute funds or furnish property to the EDC.

[16] Land Bank Fast Track Act, MCL 124.755(1)(e) and 124.755(1), (2), (4).

require FMV or other "good and valuable consideration." Council may also wish to request information from the Assessor's Office on the valuation of the land within the Project Area.

Given that ODM could make substantial dollars from concessions, parking, TV rights, naming rights revenue, the LPD questioned during the DEGC meeting why not allow the City to receive a percentage of those revenues over some threshold ($20 million for example) to better help the City in its fiscal crisis.[17] ODM indicated the Project will be bringing more people, taxes, etc., and that is to the City's benefit. These types of benefits have not been measurable in economic impact studies reviewed by the LPD. An April 2013 report by the Legislative Reference Bureau[18] titled *Review of Economic Impact of Selected Professional Sports Venues and Downtown Revitalization Efforts in Oklahoma City* found that:

1. It is arguable whether sports franchises are economic engines, concluding that overall, publicly financed sports venues have not paid off for the governmental units financing them in at least the last 15 years. It also cites a national study completed in 2000 published by the Cato Institute, which failed to identify a single case where a professional sports team boosted its host community's economy.
2. Most stadium and arena spending comes from local metro residents and is simply a redirection of entertainment spending (i.e., going to a ballgame instead of dinner and movies).
3. Much of the income generated by the team is spent outside of the local economy because many professional athletes do not live where they play and some arena deals have included agreements by the sports teams to invest in the area surrounding the arenas; but the author warns that "professional sports have been historically unreliable when it comes to promises to make such local development investments."
4. Economic return is not the only reason for a city or county to finance a sports venue. The report indicates the argument of economic benefit has been replaced by the claim that having a professional sports team enhances civic pride and its social status.

IV. Funding Breakdown

The total cost for the development of the Catalyst Development Project is approximately $650 million, which includes an estimated $283 million in public investment and $367 million in private investment.[19]

According to ODM and DEGC at the group meeting, the public and private investment totals do not include the value of the land to be used for the development.[20] There is an indication in the Tax Increment and Development Plan that ODM is contributing at least $47.8 million as the cost for private land acquisition. ODM indicates this cost has increased, although these figures have not, to our knowledge, been substantiated as the appraisal of the properties have not been done and the purchase prices are not available for review. DEGC has indicated the tax value of the whole area is $10 million per 2013 taxable values but do not have individualized information from the Assessor's Office for the parcels included in the Project footprint. DEGC believes this

[17] Given the ongoing business operations of the Red Wing organization at JLA, profitability and past profit margins would assist in determining whether or not the City's request for revenue from the operation is meritorious.
[18] Selected portions of the report are attached as Exhibit 2. Please advise if you would like a full copy.
[19] These are present value figures.
[20] According to DEGC and ODM representatives, valuation has not been done for either the City-owned or privately held land assembled for this project.

information would be immaterial. It is the LPD's opinion this information is necessary to determine the value of the land, contribution of private land as well as City-owned land, provide critical information to ensure legal transfer of the City-owned land, set the baseline assessment to accurately project and track TIF revenues, and enable staff to perform a cost benefit analysis.

A. Events Center

The cost of the Center is estimated at $450 million in today's dollars, which includes the financing costs, but not the debt service or reserve accounts. According to ODM, it has already contributed $47.8 million from private sources towards the construction amount for private land acquisition and other project related costs, such as remediation, design and planning work. Funding for the construction of the Center will be through revenue bonds issued by the Michigan Strategic Fund (MSF)[21] and paid from money deposited into a fund to be established by the MSF (the "Events Center Fund"). This fund will be controlled by a bond trustee and disbursed to ODM (or its affiliates) as construction progresses in accordance with the CMA. (See Table 2, infra, regarding present versus future dollars.) The sources of the Events Center Fund will include:

- Funds that the DDA has obtained as a result of school property tax capture, continues to hold and is authorized by Public Act 396 of 2012, or by the State of Michigan to contribute to the Events Center Fund, currently estimated at $31 million.
  1. The school property tax capture funds held by the DDA are attributable to periods from and after July 1, 2010 after past DDA bonds were paid off.
  2. It is possible that $25 million rather than $31 million may be available from existing tax capture for such use. In the event that the amount of available funds is so reduced, additional private funding from ODM in the amount of such reduction will be added to the project. Clear language should be included in the MOU and CMA to this effect.
- Proceeds from one or more series of revenue bonds to be issued by the MSF (MSF Revenue Bonds). It is anticipated that the MSF Revenue Bonds will be repaid over a period not to exceed 30 years from the following sources:

A. **First source:** An irrevocable pledge by the DDA of tax increment revenues of approximately $12.8 million per year but not to exceed $15 million per year in school property tax capture of school operating taxes and the State Education Tax as described in PA 396 of 2012. The amount of the school property tax capture over the 30-year bond period is approximately $472 million.
   1. The school property tax capture is from the existing and expanded DDA Development Area No.1 under the 2013 DDA TIF Plan, but not to exceed $15 million in any given year for bond debt service requirements.
   2. In the event deterioration of property values in the DDA Development Area No. 1 prevents the capture of $12.8 million in school property taxes in a given year, the shortfall will be covered by any excess school tax capture over the $15 million cap for

[21] The MSF was established by the Michigan Strategic Fund Act, MCL 125.2001 *et seq.* as an autonomous entity to facilitate economic development throughout Michigan. The MSF Board of Directors approved the MSF bond financing for the Catalyst Development Project on July 20, 2013.

debt service purposes in any ensuing year throughout the 30-year bond period. In addition, funds in MSF bond reserve accounts could cover any shortfalls.

3. The State of Michigan will be responsible for covering any shortfall in the per pupil school allowance[22] for the Detroit Public Schools that is paid by the State's School Aid Fund, if such shortfall is caused by the DDA's capture of school property taxes for bond debt service purposes over the 30-year bond period under PA 396 of 2012.
4. It is important to note that although the school property taxes captured by the DDA represent public dollars, the impact is to the State's school aid fund and does not impact the City of Detroit's general fund. Any shortfall in per-pupil funding school allowance designated by the State aid fund as a result of the DDA capturing school taxes over the 30-year bond period will be covered by the State.

B. **Second source:** A contribution of $64.5 million by the DDA from its local property tax increment revenues, payable pursuant to a schedule to be determined by the DDA and the bond trustee. (Currently, it is assumed that the payment schedule would show approximately $2 million annually over the 30-year bond period.) This amount will include all tax increment revenues attributable to Wayne County property taxes generated in the expanded Ancillary Project area for the 30-year bond period, currently estimated at approximately $4.74 million.

1. The $4.74 million in Wayne County property tax increment revenues will be captured by the DDA from the Ancillary Development Project area. It is anticipated that Wayne County will enter into an Intergovernmental Agreement approving the DDA's capture of incremental Wayne County property taxes from the expanded area for the Events Center. It also anticipated that the Wayne County Commissioners will approve the waiver of the right to opt out of the expansion area. The MOU also makes reference to "a particular source or sources of funds" identified by the County to be used in the financing of this project. The Concession Management Agreement may be modified to include the County as a party to establish a legal basis for participation by the County. Funding provided from Wayne County, beyond the capture of taxes, is not known at this time. ODM representatives indicated the County would be participating in infrastructure projects and potentially bring financial resources for other activities (such as environmental remediation).
2. The remaining $59.76 million represents local property tax increment revenues the DDA will capture from the existing and expanded Development Area No. I under the 2013 DDA TIF Plan.
   a. Local incremental property taxes captured include City of Detroit, Detroit Library, and Wayne County property taxes (with exception to the Wayne County property taxes captured by the DDA from the EC Ancillary Development Project area for the Events Center Project).

[22] The per pupil school allowance amount is a product of per-pupil funding allowance from local school operating taxes based on 18 mills from non-homestead properties plus per-pupil funding from the School Aid Fund.

C. **Third source:** A contribution of $11.5 million annually payable by ODM (or its affiliate) over the 30-year bond period, which is $345 million. This obligation only exists during the term of the bonds (presumed to be 30 years), the remaining 65 years of the lease under the current terms of the MOU would be in essence rent-free. This annual payment replaces all of the revenues the City currently receives under the JLA sublease (parking, ticket fee, concessions, souvenirs, cable fees, etc.). A clear comparison of revenues to be received by the City should be done prior to any action on the DDA expansion or any land transfers by City Council.

1. Under the MOU, ODM will receive all concession and parking revenues from the Events Center for the initial term of 35 years. In any year revenues from the Events Center do not reach $11.5 million, ODM will be responsible to cover the shortfall from other private sources. This provision should be clear in the CMA.
2. ODM's financial ability to cover any shortfalls was not provided to the LPD. It is well reported however, that the total Ilitch organization is a $2 billion grossing empire.

D. **Fourth source:** Any other financial support from Wayne County as may be identified by the County. As of this report date, no other financial support from Wayne County has been identified for the Events Center.

The obligations of the governmental parties with respect to debt service on the MSF Revenue Bonds will not exceed the amounts specified above. It is also important to note that ODM commits to paying all construction cost overruns for the Events Center that are not funded from the MSF bond proceeds.

In addition to debt service on the MSF Revenue Bonds, the above sources will also fund a debt service reserve, a coverage reserve, and maintenance and repair reserve. Beginning four years following the issuance of the MSF Revenue Bonds, a reserve for maintenance and capital improvements will be established from the above described sources on a pro rata basis and the sum of $500,000 per year, escalating at the rate of 4% per year, will be placed in this reserve. It is anticipated that ODM (or its affiliate), will be primarily responsible for paying the operating and maintenance costs of the Events Center. It will also be responsible for repairs and maintenance of the Center up to $1 million/year. Query: What entity will be responsible if this threshold is reached in any given year?

B. Ancillary Development Area

The parties to the MOU (DDA, Olympia Development and Wayne County) are to cooperate in efforts to obtain public support, financial and otherwise, for the development projects within the Catalyst Development Area so as to encourage private development in the area.

ODM, specifically, commits to making, or causing parties to make, financial investments of not less than $138 million ($200 million total less the $62 million credit provided by the DDA if the goal is reached) in projects in the Catalyst Development Area. The DDA's contribution up to $62 million[23] will be considered a credit toward ODM's $200 million commitment if the

[23] The DDA will utilize funds generated from Project revenues not applied to payment of the MSF bonds and will be allocated to development projects on a pro-rata basis as they are commenced.

development projects are commenced within 5-years following the date the Events Center is open to the public for its first event. If the threshold for development commitments cannot be met within 5 years, the Catalyst Development Project will still go forward, ODM would only lose the $62 million credit from the DDA ($2 million per year for 30 years). This would have no impact on ODM's only financial obligation under the MOU - $11.5 million/year during the life of the bonds. There appears to be no other specific consequence associated with ODM's default on this commitment. The current framework for this deal entails little to no risk to ODM with the potential for significant revenue profit.

Any Ancillary Area projects will be subject to the terms and conditions set forth in development agreements with the DDA, and/or additional agreements between DDA and ODM. Under the terms set forth in the MOU, these projects are also subject to approval of the Michigan Strategic Fund. As with the MOU and CMA, the City Council will not have a role in negotiating or approving the development agreements for projects within the Ancillary Area once it transfers the land to the DDA.

V. Empowerment Zone

During the meeting, the expedited nature of the Project was discussed. ODM representatives indicated the rush is not from pressure being exerted by the National Hockey League or any other external force. Rather, ODM is desirous of utilizing Empowerment Zone funding and are attempting to meet a December 2013 deadline.

These zones were part of a competitively awarded federal grant and employer tax credit program for distressed large cities and rural areas. Applicants had to meet objective socioeconomic distress criteria for consideration. The City of Detroit has Michigan's only Empowerment Zone. It stretches for 20 miles from the eastern to the western portion of the City. Almost the entire Catalyst Development Project area is located in the City's empowerment zone; the Events Center Project area is totally within the zone. If successfully executed, the Project will be the largest urban empowerment zone funding in the nation.

Detroit's Empowerment Zone was set to expire on December 31, 2009[24], but was extended until December 31, 2013.[25] One requirement under the enabling statute that will be particularly beneficial to City residents is the mandate that 35% of the workforce must come from the zone itself. This threshold is monitored and employers within the zone risk losing their tax incentives if it is not maintained.

It is the understanding of the LPD that the City of Detroit's empowerment zone bond capacity of $280 million was never allocated for a City of Detroit empowerment zone project. The MSF may issue up to $180 million in empowerment zone bonds to take advantage of tax-exempt financing through the federal program (which is slated to permanently vanish at the end of this calendar year). The remaining $270 million in bonds ($450 million Events Center project cost minus the $180 million in empowerment zone bonds) may be issued as private activity MSF bonds, which

---

[24] In 2000, the Tax Relief and Community Renewal Act extended the designations.

[25] In January 2013, the American Taxpayer Relief Act of 2012, extended the designations until December 31, 2013. According to the U.S. Dept. of Housing & Urban Development, the City must amend and extend its Empowerment Zone designation through a Memorandum of Agreement before business taxpayers can file for tax incentives for 2012 and 2013.

could be taxable[26] bonds and more expensive to the issuer. According to the DEGC, one series will be just public money and not tax exempt until confirmed; the second series will be tax-exempt empowerment zone funds (the City must approve this transaction).

The DDA feels the Detroit bankruptcy does not negatively impact the sale of MSF bonds since the bonds would have dedicated revenue streams and the bonds could be further secured with bond insurance or some other type of credit security.

The LPD understands the empowerment zone bonds will be presented to City Council as a separate transaction sometime in October 2013. City Council may wish to request additional information on this aspect of the proposed transaction as well as the rationale for not including it in the MOU.

VI. Outstanding Issues with the JLA Sublease

The MOU requires a sublease extension through the 2015-2016 hockey seasons.[27] Negotiations are ongoing and a finalized lease is expected late 2013. The DEGC has a lead role in negotiating the extension (working with the Mayor's Office and the Law Dept.). Until a lease extension is formalized and executed, all issues surrounding outstanding monies owed to the City (i.e., back taxes, rent, parking) are still open. It is important that any negotiations that are settled would not result in the impairment of MPD's ability to meet bond debt service associated with outstanding parking bonds, which are approximately $9 million.

In the past, the City has had various difficulties securing and/or verifying[28] payments required under the JLA subleases from Olympia Entertainment. The lease was amended twice to incorporate penalties for non-performance of obligations under the lease.

Negotiations regarding back taxes are still ongoing. After negative publicity in the media in December 2012, Olympia and the City agreed the minimum amount owed for back taxes was $2.4 million (after a reconciliation was completed in Dec. 2012 and Jan, 2013). In February 2013, Olympia paid $1.7 million and on August 16, 2013, it paid an additional $450,000 for back taxes.[29] In February 2013, it also paid an additional good faith deposit of $800,000 towards back rent.

As to other outstanding revenues owed to the City under the expired lease that should be secured during the ongoing negotiations, the DEGC indicated it was too early to respond without further discussions with the Mayor's Office. These outstanding amounts could include monies from: ticket service fees, private suite rental fees, income taxes for all hockey players for games played at JLA and concessions.

---

[26] MSF bonds are not automatically tax exempt (IRS must confirm their tax exempt status).
[27] The JLA sublease expired July 30, 2010 so there is a need for a lease from 2010-2017. When this lease extension expires or when JLA is vacated, it will be back under City control. At this time, future plans for that site are unknown.
[28] The City has been restricted from conducting independent audits to verify the payments received and is prohibited from properly monitoring the contract for the operation of JLA and Cobo Arena as detailed in the August 2007 Audit of the Municipal Parking Dept. conducted by the Auditor General.
[29] If the terms of the lease extension from 2010 are accepted as proposed by Olympia, these payments will satisfy the payment of back taxes.

City Council may also wish to request the annual amount received of fees from subscription, cable or live events at JLA, including the lease of the arena to DreamWorks. The City has been entitled to 25% of gross profits in excess of $750,000 received from the sale of television rights for events held live in either JLA or Cobo Arena. Although the City has been entitled to this remittance since 1980, it is unknown whether it has ever been received. While the Finance Dept. in the past had estimated outstanding amounts as high as between $50-80 million dollars, the City may be limited in its ability to seek legal redress. This requires further analysis.

The outstanding obligations under the expired sublease for JLA and Cobo Arena are important not only to the City's coffers but also to effectively vet the proposed DDA expansion of Development Area No. 1 as the City will not get any percentage of concessions, parking (as part of season ticket package), etc. under the MOU.[30] ODM will be financially contributing $11.5 million per year for 30 years (until the bonds are repaid), and then there will be no financial contribution under the lease for the remaining 65 years. Under the MOU, ODM will retain all revenues from concessions, tickets, parking, naming rights, etc.

VII. Proposed DDA Plan Amendments

The proposed 2013 Downtown Development Authority (DDA) amendments to the restated tax increment financing plan and development plan for Development Area No. 1 (2013 DDA TIF Plan) is before your Honorably Body for consideration.[31] This proposal extends the duration of the plan from 2027-2028 to 2044-2045, for a total period of 32 years from 2013 to accommodate major financing arrangements and primarily to support the proposed Catalyst Development Project.

The proposed boundaries of the 2013 DDA TIF Plan are expanded to encompass the Project Area, extending the DDA Development Area No. 1 boundaries just south of the Fisher Freeway as well as north and northwest of the Fisher Freeway. The plan also encompasses the "2013 Expansion Area", which comprises the Events Center and Ancillary Development Area located within the northern and northwestern part of the Catalyst Development Project Area. This would allow the DDA to capture additional tax incremental revenues in the expanded area to provide additional resources for DDA projects, including the new Catalyst Development Project.

The DDA Board of Directors adopted the 2013 DDA TIF Plan on June 26, 2013, concluding that the 2013 DDA TIF Plan, including but not limited to the expansion of the Detroit Downtown District and the Development Area to include the 2013 Expansion Area, are necessary to aid in economic growth of the Detroit Development Area No. 1 and the Detroit Downtown District, to halt property value deterioration, to eliminate the causes of such deterioration, to promote economic growth and the increase of property tax valuation in the downtown business district, and to permit and assure achievement of the purposes of the DDA Act of 1975.

As stated previously, a discussion and public hearing is set before the Planning and Economic Development Standing Committee on Thursday, September 5, 2013 regarding the 2013 DDA

---

[30] Under the expired sublease, these payments are dedicated to bond payments.

[31] The DDA presented the last TIF plan amendments back in 2008. TIF plan amendments typically are presented to City Council whenever there is a major project or number of major project changes coming to fruition.

TIF Plan. The plan then lays on the table for 60 days until November 5th to give taxing jurisdictions impacted by the tax capture component an opportunity to weigh in.[32]

It is the understanding of the LPD that the Downtown Citizens District Council (DCDC) has not taken formal action on the 2013 DDA TIF Plan, but that it is publicly opposed to the Catalyst Development Project, especially as it relates to the Events Center due to the large amount of public dollars being utilized. To LPD's knowledge, Brush Park CDC has not been presented with the plan even though the proposed expansion boundaries would necessitate their involvement. City Council may wish to verify both CDCs are up-to-date on the DDA Plan and have all the requisite information to review. The CDCs have up to 10 days beyond the public hearing date to make final recommendations regarding the plan. LPD staff believes that the project should be presented to the Brush Park CDC for its consideration and recommendations.

A. Project Expenditure Changes in the 2013 DDA TIF Plan

Table 1 below reflects the project expenditure changes from the 2008 DDA TIF Plan to the 2013 plan. It shows that the Events Center and the Ancillary Development Area (the two components of the Catalyst Development Project) combined represent over 78% of the project expenditure changes in the 2013 DDA TIF Plan. As a result, the discussion in this report will focus primarily on these two projects.

Table 1

DDA 2013 TIF Plan Project Expenditure Changes

(In Millions of Dollars)

Project Expenditure Description	2008 TIF Plan	2013 TIF Plan	Change	Percent of Change	Discussion Ranking
150 Michigan Avenue Garage	**$23.50**	**$23.43**	**($0.07)**	**0.0%**	
[redacted]					
Quicken Loans Headquarters	**$40.00**	**$39.00**	**($1.00)**	**-0.1%**	
Convention Facilities Area Public Improvements	**$3.70**	**$4.58**	**$0.88**	**0.1%**	
Ford Auditorium	**$0.50**	**$0.01**	**($0.49)**	**-0.1%**	
[redacted]					
Streetscape Improvement Project	**$24.55**	**$27.78**	**$3.23**	**0.4%**	
[redacted]					
Downtown Dev Planning & Marketing	**$2.50**	**$0.63**	**($1.87)**	**-0.2%**	
[redacted]					
Special Area Maintenance	**$0.15**	**$0.65**	**$0.50**	**0.1%**	
[redacted]					
			$795.37	**100.0%**	

[32] Please note, as part of the MOU regarding the Project, Wayne County has agreed not to opt out.

B. Today's Dollar and Gross (Future) Dollar Values of Events Center and EC Ancillary Development Projects

Table 2 below shows the Events Center and Ancillary Development projects in today's (present) dollar and gross (future) dollar values. It also reflects the private versus public contribution for the Events Center and the combined Events Center and Ancillary Development (i.e., Catalyst Development Project).

For the Events Center, the private contribution is approximately 42%; and the public contribution is 58%. When the Events Center and Ancillary Developments are combined, the private contribution increases to approximately 56% and the public contribution 44%.

Table 2

Catalyst Development Project

Events Center and Ancillary Development Projects

In Today and Gross (Future) Dollar Values

(In Millions of Dollars)

Sources and Uses of Funds						Gross (Future) Dollars	
Events Center:		[redacted]	(1)	[redacted]			
Land acquisition costs, preliminary site work and construction of Events Center							
Private Financing (ODM)						$392.8	(2)
Public Financing:						$561.5	(4)
Existing DDA School Tax Capture	$31.0		(3)		$25.0		
DDA School Tax Capture commencing 12/2013	$206.3				$472.0		
Wayne County tax increment revenues in 2013 expansion area	$1.7				$4.7		
Other DDA tax increment revenues	$22.6				$59.8		
Events Center Subtotal						$954.3	
Ancillary Development Project							
Land acquisition, demolition, construction, rehabilitation, infrastructure for Ancillary Development Project							
Private Financing						$200.0	
Public Financing (DDA tax increment revenues)						$62.0	(4)
Ancillary Development Project Subtotal						$262.0	
Overall Catalyst Development Project							
Private Financing						$592.8	
Public Financing						$623.5	
Catalyst Development Project Total						$1,216.3	

(1) Private and public funding for Events Center construction and public funding for EC

Ancillary Development Project represents the today's value as of July 2013 of funding sources over the 30 year term of the MSF revenue bonds, discounted at a rate of 5.91%.

(2) ODM's gross (future) dollar private contribution includes $47.8 M for land acquisition and other project related costs plus $11.5 M contribution over 30 years.

(3) ODM will contribute $6 M if DDA does not have $31 M in existing school tax capture.

(4) Gross (future) dollar amount as reflected in Table 3 of 2013 DDA TIF Plan under project expenditures.

C. Events Center Project

Table 1 shows that the 2013 DDA TIF Plan allocates $561.48 million to the Events Center Project in gross (future) dollars as illustrated in Table 2.

According to the DDA Plan, the proposed Events Center Project is a sports/entertainment complex that is part of an initiative conceived to expand the traditional downtown business district into the area north of the Fisher Freeway and west of Woodward Avenue and to effectively connect downtown Detroit to Detroit's Midtown area. Its objective is to transform the 2013 Expansion Area from its currently largely blighted state into a vibrant year-round business, residential and entertainment district that will enhance the viability of the DDA's past and present economic development efforts throughout the Development Area No. 1, and in particular in the adjacent Grand Circus North Development Area. The initiative is also meant to stimulate private and public development efforts in Detroit's Midtown area.

In the event that Wayne County provides a funding commitment for the construction of the Events Center, subject to approval by the DDA Board of Directors, the DDA may transfer its ownership interest in all or a part of the Events Center to the Detroit/Wayne County Stadium Authority or other building authority formed under Act 31 of 1948, or other public entity, as determined by the DDA. Under such an alternative ownership structure, the CMA structure would also be modified, subject to approval of the DDA Board of Directors.

D. Ancillary Area Development

Table 1 shows that the 2013 DDA TIF Plan allocates $62.0 million to the Ancillary Development Project in gross (future) dollars as illustrated in Table 2.

As part of the Catalyst Development Project, other projects involving the development, redevelopment, rehabilitation and repurposing of existing buildings and vacant lands located in portions of the Catalyst Development Area outside of the boundaries of the Events Center are proposed as the Ancillary Development Project.

The exact cost of the Ancillary Development Project is not currently known, but estimated at least $200 million. As illustrated in Table 2 above, funding for the project is as follows:

- $200 million pursuant to a commitment by ODM, or its affiliates, or cause other private parties to invest, such amount for this project.
- Such commitments will be made in accordance with a development agreement or agreements, which among other terms and provisions, include an obligation to commence projects with aggregate budgeted costs in the amount of at least $200 million on or before

that date which is five years after the date that the Events Center is open to the public for its first event.

- If at least $200 million in project commitments are ready to commence within the five years of opening day of the Events Center, then the DDA will provide incremental school property taxes over the 30-year MSF Revenue Bonds in excess of those pledged for purposes of debt service on the MSF Revenue Bonds up to a maximum amount of $62 million as a contribution towards the costs of such projects.
- As a result, the DDA would not contribute the $62 million in one lump sum towards the minimum of $200 million in committed projects, but would pay it subject to a schedule that would equate to approximately $2 million per year over 30 years.
- It should be noted that any school property incremental taxes captured by the DDA beyond those used for the Events Center and Ancillary Development Projects would be used to pay off the MSF bonds sooner.

According to the 2013 DDA TIF Plan, property values in the Ancillary Development Project area have declined by 12% in the period from 2009-2012. Although steep property value decline was experienced in other parts of downtown Detroit area as well over the same period, the development of an Events Centers could spur other development in the Ancillary Development Project area, including office, residential and retail development, to build off these type of developments now occurring in other parts of downtown and the mid-town areas, and take advantage of the "urban movement" now occurring in downtown areas throughout the country.

In the event that any occupied residential units are identified in the Events Center area or that occupied residential structures are designated for acquisition or vacation by the DDA in connection with the Ancillary Development Project, the DDA will assist homeowners and tenants residing in such areas who are displaced as a direct result of the DDA's activities in identifying available replacement housing in the manner provided in federal and local guidelines. In addition, such displaced homeowners and tenants may qualify for financial assistance for certain relocation expenses as required in federal and local regulations. In the case where financial assistance is needed for relocation purposes, the TIF Plan and representatives of the DEGC indicate that the DDA would use project funds to cover these relocation costs.

VIII. Public versus Private Partnerships in Various Stadium Projects

Table 3 below shows public-private partnerships in various stadium projects since 2000:

***Table 3*-Public-Private Partnerships**

Arenas & Ballparks Built in the Last 10 Years *Plus Tigers/Lions Stadiums and proposed Events Center and Catalyst Development Projects and proposed new Vikings Stadium*	Year	Public	Private
[redacted]			
FedEx Forum - Memphis, TN	**2004**	**100%**	**0%**
Toyota Center - Houston, TX	**2003**	**100%**	**0%**
Great American Ball Park - Cincinnati, OH	**2003**	**90%**	**10%**

Amway Center - Orlando, FL	**2010**	**90%**	**10%**
Jobing.com Arena - Glendale AZ	**2003**	**80%**	**20%**
Citi Field - New York, NY	**2009**	**74%**	**26%**
Consol Energy Center - Pittsburgh, PA	**2010**	**68%**	**32%**
Petco Park - San Diego, CA	**2004**	**67%**	**33%**
Prudential Center - Newark, NJ	**2007**	**56%**	**44%**
Time Warner Cable Arena - Charlotte, NC	**2005**	**50%**	**50%**
Citizens Bank Park - Philadelphia, PA	**2004**	**50%**	**50%**
[redacted]			
New Vikings Stadium	***TBD***	***51%***	***49%***
Source: MEDC/MSFB presentation by Olympia Corp.; DDA; Vikings Stadium website			

Table 3 indicates that the public-private partnership for the Events Center is more favorable to the developer, ODM, as compared to more recent projects and the Tigers/Lions stadium projects, which were more than a decade ago. However, when the development of the Ancillary Area is included with the Events Center as the proposed Catalyst Development Project, the combined development is more favorable to the City of Detroit when compared to other projects, with the exception of the Lions Stadium project.

Ideally, ODM would contribute more private dollars to the Events Center since that is more "shovel ready" than the Ancillary Area since the funding commitments for the latter are uncertain at this point, and largely contingent upon the success of the Events Center, the local economy, and demand for new office, residential and retail development.

The public contribution for the Events Center does not involve City general fund dollars as the City goes through bankruptcy. The majority of the public dollars is tax incremental revenues captured by the DDA, which has been in existence since 1975 for the purpose of economic development, elimination of blight and the stabilization of residential and business activity principally in the downtown Detroit area.

Unquestionably, the majority of major development that has occurred in the downtown Detroit area since 1975 would not have materialized without the aid of gap financing and other economic tools offered by the DDA to developers.

Acknowledging the drastic differences between the financing and CMAs for previously constructed sports and entertainment venues within the City of Detroit is also necessary when analyzing the proposed Catalyst Development Project.

A. Cobo Arena and Joe Louis Arena

Cobo Arena[33] and Joe Louis Arena, built in 1961 and 1979 respectively, are owned by the Detroit Building Authority and leased to the City of Detroit, who in turn entered into a sublease with Olympia (Detroit Red Wings is the major tenant although other events are also hosted).

[33] Please note Cobo Hall and Cobo Arena were transferred to the Detroit Regional Convention Authority in 2009.

The City financed the construction of Joe Louis Arena at a cost of approximately $30.3 million. Public financing was also used to construct Cobo Hall and the adjoining Cobo Arena at an initial cost of $56 million to construct.

B. Comerica Park and Ford Field

Ford Field (opened in 2002) and Comerica Park (opening season April 2000) are owned by the Detroit/Wayne County Stadium Authority, under contract with Wayne County to the DDA and then subleased to the respective team organizations. Both the Lions and Tigers were required to obtain up-front financing for these projects and the projects utilized various funding sources, including a new County tax (hotel/car rental), to make the Tigers/Lions stadium projects viable. In contrast, the funding sources for the Catalyst Development Project are mainly coming through the DDA/ODM.

According to a November 1996 report by the Fiscal Analysis Division, regarding a DDA amendment to the TIFA & Development Plan for Development Area No. 1 for the Tigers/Lions Stadia Complex, the total project costs were $505 million.[34]

Tiger Stadium Project (Comerica Park)	
Michigan Strategic Fund Contribution	$55 million
DDA Contribution	$40 million
Wayne County Contribution	$40 million
Tigers, Inc. Contribution	$125 million
Total Project Costs	$260 million

Lions Stadium Project (Ford Field)	
DDA Contribution	$70 million
City of Detroit Contribution	$15 million
Wayne County Contribution	$20 million
Corporate Contributions	$50 million
Detroit/Wayne County Stadium Authority Contribution (from Tigers, Inc.)	$20 million
Lions, Inc. Contribution	$50 million
Total Project Costs	$225 million

Ford Motor Company purchased naming rights to Ford Field for $40 million over 20 years. In 1998, Comerica Bank agreed to pay $66 million over 30 years for naming rights to the new Tiger ballpark. Under the Catalyst Development Project MOU, ODM reserves all rights to name the new Events Center as well as the right to sell, market, copyright, secure a trademark for or any other activity to exploit the Events Center's name.

One topic that is continually raised at the Council table is the reimbursement of public safety costs for large-scale public events that require a large personnel commitment. Neither the Tigers nor Lions are responsible for such reimbursements under their CMAs. ODM representatives appeared amenable to reimbursing the City for any public safety (police, fire and EMS) services provided at the Events Center, and would craft some language in the CMA to address this issue.

[34] Tiger Stadium $240 million; Lions Stadium $225 million; Structure and other Parking $20 million; Lions HQ and practice facilities $20 million. The Lions HQ and practice facilities ($20 million) was paid by the Lions.

This topic should be further explored in the ongoing negotiations for the new Events Center. To our knowledge, there has been no formal discussion as to the use of secondary employment for coverage at the Events Center.

IX. Cost-Benefit Analysis on the Events Center Project

At this report date, the LPD cannot provide a true cost-benefit analysis with respect to the Events Center Project because the division needs the following information:

- Estimated fair market value of the City-owned and EDC-owned land that will be transferred to the DDA for the development of the Events Center Project. For informational purposes, ODM has indicated it has paid at least approximately $48 million for the land it has purchased for the Events Center and Ancillary Development projects. ODM suggests it owns almost 50% of the land in these areas. The public land that would be transferred to the DDA for a nominal fee of a dollar could be worth substantially less or more than what ODM paid for its property. The point here is that the LPD would need the fair market value of the public land that would be transferred to the DDA to determine the City's truer cost to the project.
- Projected income tax revenue from the projected number of construction jobs associated with the Events Center. ODM informed the MSF Board of Directors in July 2013 that 5,550 construction jobs would be created by the Events Center. The LPD would also need to know the projected timeline for the construction period and the projected level of direct spending for this project that could benefit Detroit-based businesses.
- The level of income tax revenue from the current 660 jobs at Joe Louis Arena as compared to the projected level of income tax revenue from the projected 1,100 number of jobs at the Events Center. The LPD would also need to know the type of jobs these are, the level of full time versus part time jobs, and average salary for these jobs. It is encouraging that 35% of any jobs related to the ongoing operations of the Events Center would be required to be filled by residents in the City's empowerment zone based on the level of empowerment zone bonds that could be issued by the MSF for this project in accordance with federal empowerment zone guidelines. It would also be essential for DDA/ODM to collaborate efforts for job training and recruitment to meet the jobs hiring threshold.
- The level of utility users tax income generated at Joe Louis Arena as compared to the projected level of utility users tax income that would be generated at the Events Center.

X. Economic Benefit Analysis relative to the Events Center Project

ODM presented to the MSF Board of Directors in July 2013 the following economic benefit impact information that was prepared by Dr. Rosentraub, a professor at the University of Michigan:

Table 4-Sustained Jobs Growth	Permanent Jobs	Economic Impact
Current Joe Louis Arena	660	$ 125 million
Proposed Hockey Arena/Events Center	1,100	$210 million

Source: Dr. Mark S. Rosentraub, University of Michigan

Table 4 suggests the estimated economic impact from the additional 440 jobs that would be created at the Events Center is substantial. However, the LPD is unclear how much of this truly impacts the City of Detroit because the detailed assumptions have not been provided as of this report date. More specifically, the LPD would like to obtain from the U of M professor:

- Details on assumptions, especially as it relates to direct annual spending by fans, the Red Wings, the team's employees and players, visiting teams and the NHL in connection with games and the operation of the facility.
- The current and projected (based on new Events Center) collection of sales and player income taxes.
- Any breakdown on season ticket holders as it relates to resident versus non-resident holders, if available. I suspect most are from outside Detroit.
- Explanation of multiplier effect for direct spending in restaurants, retail outlets, etc. and any indirect spending.

Upon receipt of this information the LPD can then determine the reasonableness of the projected economic impact as it relates to jobs growth from the Events Center Project.

Table 5-Immediate Jobs Impact	Construction Jobs	Economic Impact w/in Wayne County	Additional Economic Impact w/in State	Total
Proposed Hockey Arena Only	5,550	$200 million	$500 million	$700 million
Phase 1 Ancillary Development	2,750	$100 million	$200 million	$300 million
Total	8,300	$300 million	$700 million	$ 1 billion

Source: Dr. Mark S. Rosentraub, University of Michigan

Table 5 shows sizable economic impact to Wayne County, which largely reflects the City of Detroit, from the projected construction jobs from both the Events Center and Ancillary Development projects. Again however, the LPD would like to see the details behind the assumptions to determine the reasonableness of the immediate jobs impact from the construction jobs.

Table 6-Long-Term District Economic Impact (Phase 2: 20 year build out)		
Direct Expenditures	Indirect Effect	Total Economic Impact within the State of Michigan
$1.1 billion	**$780 million**	**<u>$1.8 billion</u>**
Source: Dr. Mark S. Rosentraub, University of Michigan		

The LPD feels Table 6 is indicating the long-term economic impact from the Events Center and Phase 2 of the Ancillary Development Project, but we are uncertain because we do not have the details. This long-term economic benefit picture is sizable, but it is unclear how much of it relates to the City of Detroit proper. Again, the LPD is requesting the details behind the assumptions to determine the reasonableness of this long-term projection.

XI. Positive Observations regarding the Events Center and Ancillary Development Projects

The LPD recognizes the excitement associated with the proposed development of a new Events Center that would provide the new home for the very successful Detroit Red Wings and provide a venue for other sporting and entertainment events. The Catalyst Development Project could provide:

- A financing mechanism that does not impact the City of Detroit's general fund. The MSF bonds supporting the project will be paid from DDA tax incremental revenues and ODM project revenues. Since 1975, the DDA has capture tax incremental revenues to support economic development in the downtown Detroit area; therefore, the tax incremental revenues have not been available for deposit into the City's general fund since that time.
- A new home for an extremely successful professional hockey team that has helped Detroit, along with the Detroit Tigers and Lions, to offer some of the best sports experiences in the country; and the City is often coined the "Best Sports Town" in the country.
- The ability to spur more economic development in a major location with close proximity to the downtown Detroit area and the emerging mid-town area that has long been vacant and blighted.
- A greater rationale for the development of the M1 Rail project, which could be constructed before the Events Center would be completed.
- The creation of more jobs, especially in the City's empowerment zone. The LPD feels encouraged that ODM will seriously attempt to comply with Executive Order 2007 and will the assist the City in monitoring its progress in meeting hiring goals and working with Detroit-based businesses.

XII. Outstanding Issues regarding the Events Center and Ancillary Development Projects Needing Further Clarification Prior to Proceeding with vote on DDA Expansion or Transfer of Land

The LPD has the following outstanding issues with these projects:

- A formal appraisal has not been provided for the city-owned and EDC-owned land that would be transferred to the DDA for the Events Center and EC Ancillary Development Projects. It would be more ideal for the City to receive fair market value for the transfer of city-owned land to the DDA for these developments to help the City financially that is undergoing the largest municipal bankruptcy in the history of the United States.
- ODM receives all concession, parking, TV rights and naming rights revenue from the Events Center operations. In addition, ODM does not contribute any monies to the City after the MSF bonds are paid off. Moreover, ODM's level of private contribution to the Events Center seems more favorable to the entity as compared with other recent stadium developments. Ideally, ODM would either provide higher level private dollars to the construction of the Events Center or provide a percentage of the project revenues to the City over a certain threshold, to again assist the City financially.
- What is the reasoning or rationale for the area that is incorporated as part of the Catalyst Development Area?
- Will the plans, design, appearance of the Events Center be provided to the City Planning Commission for review and approval?
- What are the City's plans for Joe Louis Arena after the Red Wings and Olympia Entertainment sponsored events are moved to the Events Center? What specific provisions are contemplated by ODM to limit the ability of Joe Louis Arena to compete with the proposed Events Center? If ODM wishes to limit the City's use of JLA, should the discussion include the need for compensation for either adaptive reuse or demolition, for both the arena and the parking facility?
- Property owned by the City and conveyed to the DDA for the Events Center will not include any reimbursement to the City. Will there be any reimbursement to the City for City-owned property that is conveyed for other projects in the Catalyst Development Area?
- Is there a standard for the anticipated life of a Hockey arena? The proposed Concession Management Agreement may be renewed for up to a total of 95 years. Do DDA and ODM anticipate the proposed Events Center will be usable for 100 years?
- The agreements for the development of Comerica Park and Ford Field included goals for utilization of Disadvantaged, Minority, Women, City and County resident owned businesses that were reported to a public body. Do DDA and ODM contemplate a similar arrangement that will include regular public progress reports?
- Will the proposed Concession Management Agreement be submitted to the City Council for review?
- Do ODM and/or DDA have any priorities for the other projects in the Catalyst Development Area, outside of the Events Center?
- What will be the process for considering and approving the other projects in the Catalyst Development Area?

- How many spaces are in the JLA parking garage owned by MPD? What percentage of it used on days other than 41 home games? When will the bonds be paid off? Is that revenue needed to cover other outstanding debt?
- Why isn't the use of Empowerment Zone bonds noted in the MOU? Will those hiring regulations conflict with those in the MOU? Which controls?
- The City has obligations under the MOU, but the City is not a party to the MOU – who is negotiating on the City's behalf?
- What entity will be responsible if one million dollar maintenance threshold at the Events Center is reached in any given year?

XIII. Merits as compared to the Outstanding Issues regarding the Events Center and Ancillary Development Projects

The LPD recognizes that on-going economic development in the City of Detroit is critical to the future vitality of the City, especially projects of the magnitude of the Catalyst Development Project. The promise of more jobs and the anticipated economic spin offs from these projects requires a strong, steady and positive reaction to the Project. But in a time when the City is going through a municipal bankruptcy, the LPD feels the City should receive the highest level of benefits possible from major projects to help the City financially.

At minimum, more detail should be provided by the parties to this transaction regarding the economic benefits derived directly/indirectly from these projects for the benefit of the City. At best, the LPD would like to see more private dollars going to the City from these projects.

A. Land Assemblage - Table 1 shows that the 2013 DDA TIF Plan allocates an additional $69.1 million to the Land Assemblage program. The DDA uses the Land Assemblage program to increase investor demand in the DDA district by acquiring buildings or vacant buildable sites when necessary to address blighted conditions and to assemble land into attractive parcels for redevelopment. In recent years the DDA has used funds from the Land Assemblage program for the Quicken Loans Headquarters project.

The Land Assemblage program is being increased in the plan to accommodate projects in the future that need ready resources for land assemblage or project development. The plan anticipates the using of these funds on a regular basis starting in 2021-2022 since the DDA anticipates using much of its resources on the Events Center Project starting in 2012-2013; but of course this could change in future plan amendments based on project needs. Any reallocation of Land Assemblage funds to other projects would be reflected in future plan changes subject to City Council's approval.

B. Housing/Office/Retail Development/Absorption Program - Table 1 shows that the 2013 DDA TIF Plan allocates an additional $68.59 million to the Housing/Office/Retail Development/Absorption (H/O/RD/A) program. The DDA uses the H/O/RD/A program to stimulate additional housing, office and retail activities within the DDA district by providing a) housing construction and renovation loans; b) Class "B" and "C" office building owners renovation and tenant improvement loans to reduce vacant commercial office space; and c) loans to induce commercial/retail development. In recent years, the DDA Board of Directors authorized the use of $30 million from this program to help induce Blue Cross Blue Shield of

Michigan to relocation employees to work in downtown Detroit (see next section for more details).

Like Land Assemblage, the H/O/RD/A program is being increased in the plan to accommodate projects in the future that need ready resources for housing, office and retail or project development. The plan anticipates the using of these funds on a regular basis starting in 2021-2022 since the DDA anticipates using much of its resources on the Events Center Project starting in 2012-2013; but of course this could change in future plan amendments based on project needs. Any reallocation of H/O/RD/A funds to other projects would be reflected in future plan changes subject to City Council's approval.

C. Blue Cross Blue Shield Relocation - Table 1 shows that the 2013 DDA TIF Plan allocates $30 million to the Blue Cross Blue Shield relocation program. Since 2010, Blue Cross Blue Shield of Michigan (BCBSM) has relocated over 3,000 employees from its suburban locations to vacant office space in the Renaissance Center Phase II. In September 2010 the DDA Board of Directors authorized the reallocation of $30 million from the H/O/RD/A fund to serve as a reimbursement of $30 million in the renovation and relocation costs of $68 million incurred by BCBSM. For ten years, the DDA will make a payment of $3 million per year to BCBSM based upon BCBSM certifying annually for 15 years that the 3,000 relocated employees remained employed in the Downtown District and that their payroll for the relocated employees equals at least $180 million per year. If the standards are not met in a given year, DDA's payment may be reduced, eliminated or returned to the DDA. Because of the size of the project, the DDA feels it is more appropriate to remove the payment from the H/O/RD/A fund and provide an individual line item in the plan for this payment.

D. DDA Operating Fund - Table 1 shows that the 2013 DDA TIF Plan allocates an additional $24 million to the DDA Operating Fund. The plan adds an allocation of $250,000 per year for a total of $750,000 per year allocation from the DDA TIF Plan to the DDA operating budget for the duration of the plan. The $750,000 would be reflected as a "Transfer from the Tax Increment Fund" in the DDA operating budget going forward; and the DDA's contract with the Detroit Economic Growth Corporation (DEGC) in its operating budget could go from $1.5 million to $1.75 million, which increase in contract amount would be reflected in the DEGC's operating budget as a revenue source.

The DDA increases the allocation amount in order to accommodate revenue declines in DDA's operating budget and cuts in DEGC's budget in recent years because of City of Detroit budget constraints, since the City traditionally provides a subsidy to DEGC's operating budget. For years, the City's investment in DEGC's operating budget was $1 million. Due to budget constraints, the City's investment in DEGC's operating budget is $700,000 for 2013-2014.

E. Tiger Stadium - Table 1 shows that the 2013 DDA TIF Plan allocates an additional $11.66 million to the Tiger Stadium project. The Detroit Tigers, Inc. is primarily responsible for paying the operating and maintenance costs of the Tiger Stadium (a/k/a Comerica Park). Starting in 2001, the DDA TIF plan has allocated $250,000 per year (adjusted for inflation) to a major repair and replacement fund for the stadium. The 2013 DDA TIF Plan extends this payment until 2044-2045.

F. Woodward/Kennedy Square Improvements - Table 1 shows that the 2013 DDA TIF Plan allocates an additional $9 million to the Woodward/Kennedy Square Improvements project. M1 Rail was created pursuant to Public Act 481 of 2008 for the purpose of building a light rail link from Grand Boulevard to Jefferson Avenue along Woodward Avenue. It has sought sponsorship of proposed stations from both public and private entities. The M1 Rail line will mitigate instances of property deterioration, blight, decline and disuse of retail uses long Woodward Avenue within the Downtown District and aid in the redevelopment and acceleration of retail activity within the corridor.

M1 Rail has requested that the DDA sponsor three stations at a cost of $3 million per station. In March 2009, the DDA Board of Directors authorized the sponsorship of the stations and redirected funds from the H/O/RD/A fund to the rail project to fund the sponsorship. The DDA anticipates the three sponsored stations will be located between Jefferson and Fisher Freeway.

G. Bond Debt Service Reserve - Table 1 shows that the 2013 DDA TIF Plan eliminates the Bond Debt Service Reserve of $18.52 million since this reserve was no longer needed when DDA bonds were paid off in 2010.

H. Advance Repayment - Table 1 shows that the 2013 DDA TIF Plan reduces the Advance Repayment fund by $9 million to reflect reduced repayments on a $15 million bond issued in 1989 by the City of Detroit for the Lions stadium project.

I. Michigan Avenue Garage Debt Service - Table 1 shows that the 2013 DDA TIF Plan reduces the Michigan Avenue Garage Debt Service by $14 million to reflect lower DDA debt requirements for the garage that is connected to the Book Cadillac Hotel project.

XIV. ESTIMATED REVENUE CHANGES IN THE 2013 DDA TIF PLAN

Table 7 below reflects the estimated revenue changes from the 2008 DDA TIF Plan to the 2013 plan.

Table 7

DDA 2013 TIF Plan Estimated Revenue Changes

(In Millions of Dollars)

Estimated Revenue Description	2008 TIF Plan	2013 TIF Plan	Change
Estimated Catalyst Project Revenues earmarked for the Events Center Project (1)	**$0.00**	**$496.98**	**$496.98**
Estimated Wayne County Tax Increment Revenues from the expanded Development Area 1, allocated to the Events Center Project	**$0.00**	**$4.74**	**$4.74**
Adjustments of the Estimated Annual Tax Increment Revenues to more accurately reflect taxable value and millage rate changes	**$378.61**	**$670.61**	**$292.00**
Estimated Catalyst Project Revenues earmarked for the EC Ancillary Development Project (1)	**$0.00**	**$57.20**	**$57.20**
Excess Bond Debt Service Reserve	**$0.00**	**($22.01)**	**($22.01)**
Adjustments to Anticipated Loan Repayment Receipts	**$11.41**	**$9.33**	**($2.08)**
Adjustments to Anticipated Lease Payment Receipts	**$2.99**	**$5.16**	**$2.17**
Adjustments to Michigan Avenue Garage Net Receipts	**$22.00**	**$11.99**	**($10.01)**
Adjustments in Sale of Real Estate Receipts	**$6.50**	**$2.40**	**($4.10)**

Adjustments to Interest Income on TIF and Bond Revenues over the Life of the Plan, which expires in FY 2044-2045	$18.26	$7.06	($11.20)
Total DDA 2013 TIF Plan Estimated Revenue Changes			$803.69
Less: Total DDA 2013 TIF Plan Project Expenditure Changes (from Table 1)			$795.37
Difference: Ability of Revenue Changes meeting Project Expenditure Changes			$8.32
(1) "Catalyst Project Revenues" represent school property tax incremental revenues captured by the DDA in the existing and expanded Development Area 1.			

Table 7 reflects the changes in estimated revenues over the life of the 2013 DDA TIF Plan, which expires in FY 2044-2045. Importantly, Table 7 shows that total estimated revenues changes in the plan exceed total project expenditure changes in the plan by $8 million; reflecting that estimated revenues are projected to meet anticipated project expenditure requirements over the life of the plan, or over the next 32 years.

A. Estimated Catalyst Project Revenues earmarked for the Events Center Project

Table 7 shows that the 2013 DDA TIF Plan includes estimates of $496.98 million in Catalyst Project Revenues that will be generated over the life of the plan for the Events Center Project. "Catalyst Project Revenues" represent school property tax incremental revenues captured by the DDA in the existing and expanded Development Area 1 to help make MSF bond debt service payments over the 30-year bond period for the project. A more detailed discussion of the revenues associated with the Events Center Project is under Section VII. Proposed DDA Plan Amendments, Subpart C.

B. Estimated Wayne County Tax Increment Revenues from the expanded Development Area No. 1, allocated to the Events Center

Table 7 shows that the 2013 DDA TIF Plan includes estimates of $4.74 million in Wayne County tax increment revenues captured by the DDA from the expanded Development Area 1 generated over the life of the plan for the Events Center Project. These revenues will be used to help make MSF bond debt service payments over the 30-year bond period for the project.

C. Adjustments of the Estimated Tax Increment Revenues to more accurately reflect taxable values and millage rate changes

Table 7 shows that the 2013 DDA TIF Plan includes adjustments of the estimated annual tax increment revenues to more accurately reflect taxable values and millage rate changes, which total $292 million in additional revenues over the life of plan from the 2008 plan. From this amount, $59.76 million will be allocated to the Events Center based on a payment schedule to help make MSF bond debt service payments over the 30-year bond period for the project. The remaining $232.2 million in incremental tax revenues will be used to provide resources for other DDA project expenditures throughout the life of the plan.

The DDA will capture local (City of Detroit, Detroit Library and Wayne County-with exception of Wayne County taxes captured from the expanded Development Area 1 for the Events Center

Project) incremental taxes from the existing and expanded Development Area No.1 over the life of the plan.

Tax incremental revenue ebbs and flows have benefited from the 2000 stadium developments and other developments but suffered during the real estate market crash in 2008. The DDA property values have rebounded somewhat since 2008 due to major developments, including the Compuware, Campus Martius, Quicken Loans and Blue Cross Blue Shield of Michigan projects.

Nonetheless, the DDA uses very conservative assumptions regarding taxable values and millage rate changes in the 2013 DDA TIF Plan. The DDA assumes only a 1 to 2% growth rate starting from 2013-2014 to 2021-2022 based primarily on the advent of the Events Center Project, which should be fully operational starting in 2017-2018. Since the DDA will own the Events Center, ODM will not pay property taxes on the building; but is anticipated that the development will help increase property values surrounding it, particularly in the Ancillary Development Project area. After 2021-2022, the DDA assumes the incremental tax revenues will remain flat; as the DDA basically keeps millage rates constant with no growth in property valuations throughout the remainder life of the plan.

The DDA only assumes property valuation increases when projects are known (for e.g., the Events Center Project), and it makes no assumptions on property tax settlements unless made known by the Assessors Division of the City of Detroit.

The DDA is in the process of getting updated information from Assessors on the status of property valuations in the downtown Detroit area, and it is anticipated that these revenue projections could change before City Council votes on the 2013 DDA TIF Plan in November 2013. At this point, the DDA does not anticipate material changes in projections; but if there are material changes, the DDA will provide necessary changes in the plan documents to City Council with any necessary adjustments to proposed project expenditures.

D. Estimated Catalyst Project Revenues earmarked for the Ancillary Development Project

Table 7 shows that the 2013 DDA TIF Plan includes estimates of $57.2 million in Catalyst Project Revenues that will be generated over the life of the plan for the Ancillary Development Project, if this project reaches at least $200 million committed projects ready to commence within five years of the opening date of the Events Center Project.

"Catalyst Project Revenues" represent school property tax incremental revenues captured by the DDA in the existing and expanded Development Area No. 1 to help make MSF bond debt service payments over the 30-year bond period for the project. Any Catalyst Project Revenues captured by the DDA over those used to make debt service payments would be used to provide a credit up to $62 million towards the $200 million of committed projects based on a payment schedule over the 30-year MSF bond period. A more detailed discussion of the Ancillary Development Area is under Section VII. Proposed DDA Plan Amendments, Subpart D.

Any school property incremental taxes captured by the DDA beyond those used for the Events Center and Ancillary Development Projects would be used to pay off the MSF bonds sooner.

E. Excess Bond Debt Service Reserve

Table 7 shows that the 2013 DDA TIF Plan reflects a credit balance of $22 million in the Excess Bond Debt Service Reserve fund which represents school property tax incremental revenues captured by the DDA in excess of those used to make bond debt service payments. Since DDA bonds were paid off in 2010, these monies "were remitted to State" by being credited against school property tax incremental revenues captured by the DDA during the period after 2008.

F. Adjustments to Anticipated Loan Repayment Receipts

Table 7 shows that the DDA expects to collect $2 million less in Anticipated Loan Repayment Receipts over the life of the 2013 plan than the 2008 plan. This is due to the fact that the DDA has had to write off or re-work a number of loans in recent years because of economic reasons.

G. Adjustments to Anticipated Lease Payment Receipts

Table 7 shows that the DDA expects to collect $2 million more in Anticipated Lease Payment Receipts over the life of the 2013 plan than the 2008 plan. This is due to the continuation of the lease payment the DDA will receive from the Detroit Lions, Inc. for the duration of the plan which extends for another 17 years under the 2013 DDA TIF Plan. To lease the Lions Stadium from the DDA (which subleases from the Detroit Wayne County Stadium Authority, who owns the Tigers and Lions stadiums), the Detroit Lions, Inc. will pay to the DDA and Wayne County $250,000 annually as a lease payment to be shared on a 50/50 basis for the duration of the concession/management agreement between these parties.

H. Adjustments to Michigan Avenue Garage Net Receipts

Table 7 shows that the DDA expects to collect $10 million less in Michigan Avenue Garage Net Receipts over the life of the 2013 plan than the 2008 plan. The DDA bases the lower revenue on actual collections from the garage it owns that is connected to the Book Cadillac Hotel.

The Michigan Avenue Garage opened in 2008-2009 and the 2008 plan assumed the garage would net $1.1 million to the DDA annually throughout the duration of the plan; but the actual revenues are now approximately $700,000 annually. The DDA conservatively expects the garage net revenue to be approximately $200,000 starting in 2024-2025 and remain flat for the remainder duration of the 2013 plan.

I. Adjustments in Sale of Real Estate Receipts

Table 7 shows that the DDA expects to collect $4 million less in Sales of Real Estate Receipts over the life of the 2013 plan than the 2008 plan. The DDA did not materialize the level of real estate sales as anticipated in the 2008 plan primarily because of the real estate market crash in 2008. The DDA conservatively does not anticipate any real estate sales from 2013-2014 through 2044-2045.

J. Adjustments in Interest Income on TIF and Bond Revenues over the Life of the Plan, which expires in FY 2044-2045

Table 7 shows that the DDA expects to earn $11 million less in Interest Income on TIF and Bond Revenues over the life of the 2013 plan, which expires in 2044-2045. The DDA lowers its interest income projections based on less bond and loan portfolio balances to invest coupled with low interest rates.

XV. CONCLUSION

The 2013 DDA TIF Plan that is before your Honorable Body primarily accommodates project expenditures associated with the proposed Catalyst Development Project, which encompasses the Events Center and Ancillary Development Area projects; and reflects the estimated revenue changes as a source of funding for these projects.

The DDA Development Area No. 1 boundaries are expanded to accommodate the Catalyst Development Project in order to allow the DDA to capture more incremental tax revenues over the life of the plan that is extended for another 17 years for a total of 32 years from 2013 to 2045 to accommodate 30-year financing for the Events Center Project and provide resources for other DDA projects.

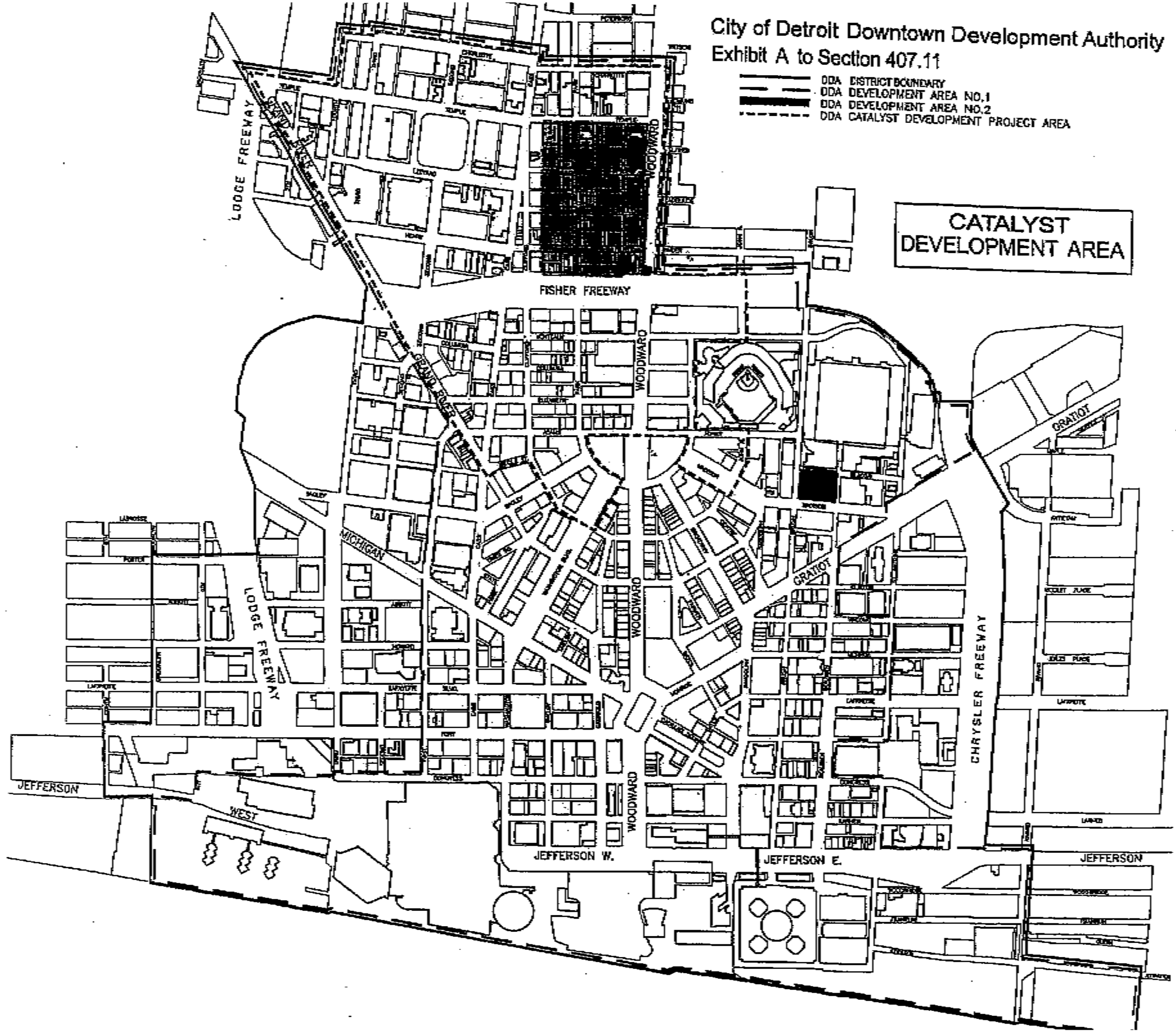
The DDA continues to be a main driver for economic development in the Detroit downtown area as it provides gap financing other development tools to help bring economic development projects to fruition.

The advent of a new Events Center to be the home of the Detroit Red Wings is an exciting project that could be a major catalyst for office, residential, retail and educational center development in a largely blighted area in the northwestern part of a 45 acre site north of the Fisher Freeway and west of Woodward. This should help to further solidify economic development along Woodward from the downtown district to the mid-town section of the City, which pent up demand for office, residential and retail development is already occurring.

Fortunately, the City of Detroit will not use general fund dollars to help finance the construction of the Events Center. Unfortunately, it appears the City's general fund will not receive a great level of additional tax receipts from this project once it becomes operational.

Attachments (2)

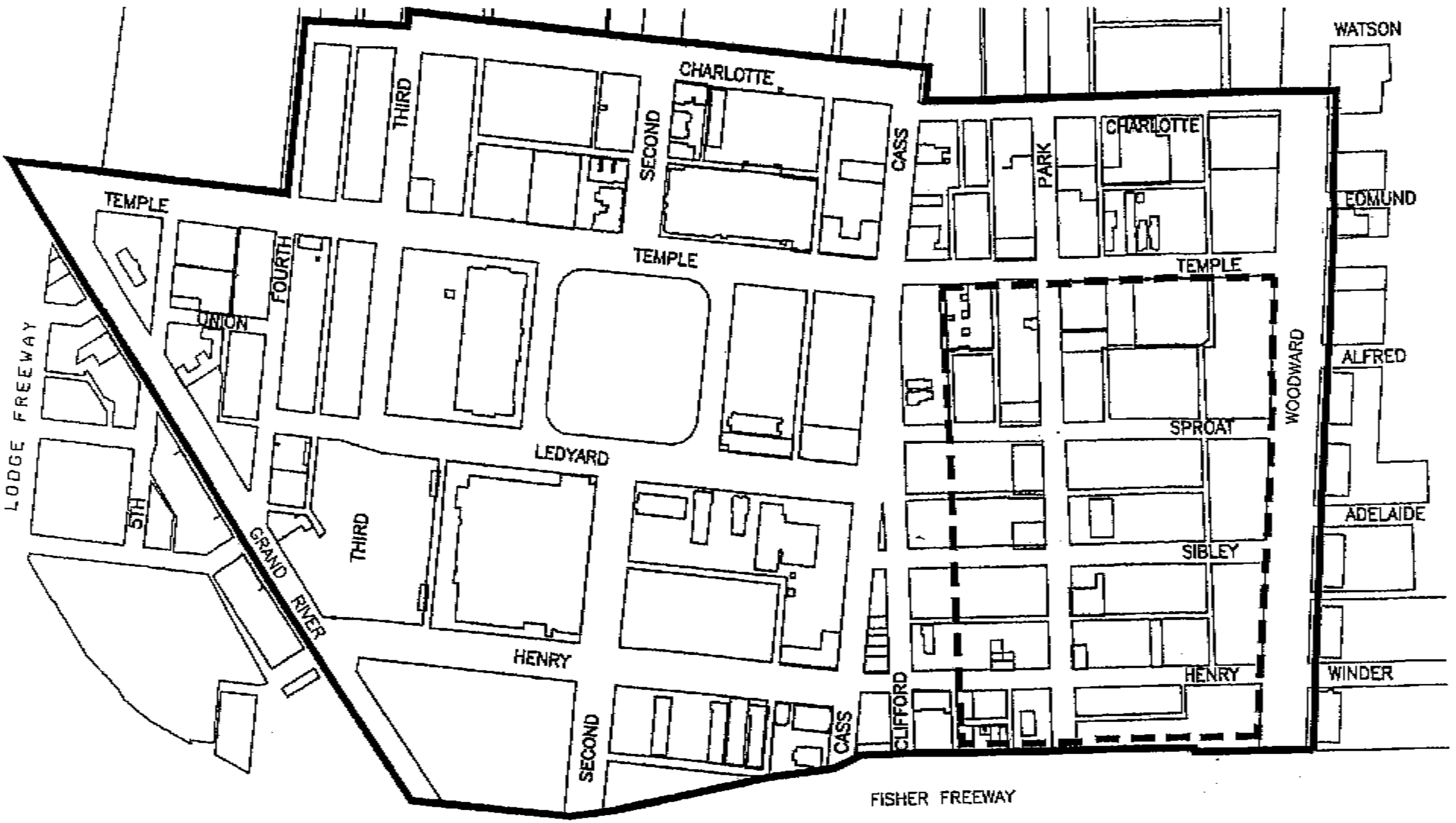
City of Detroit Downtown Development Authority
Exhibit A to Section 407.11



Attachment 1 City of Detroit Downtown Development Authority

Exhibit B to Section 407.11

Event Center Project
Area Map



REVIEW OF ECONOMIC IMPACT OF SELECTED PROFESSIONAL SPORTS VENUES AND DOWNTOWN REVITALIZATION EFFORTS IN OKLAHOMA CITY

Report by the Legislative Reference Bureau

April, 2013

Report of the Legislative Reference Bureau relating to an overview and review of the economic impact of downtown revitalization efforts in Oklahoma City, and an overview of the construction and economic impact of professional sports venues in general and in selected U.S. cities.

TABLE OF CONTENTS

VII. ECONOMIC BENEFIT OF PUBLICLY-FINANCED PROFESSIONAL SPORTS VENUES.

1. It is arguable whether sports franchises are economic engines.

Overall, publicly-financed sports venues have not paid off economically for the city, county or state governments financing them, at least in the last 15 years. In 1997, Roger Noll, now professor emeritus of economics at Stanford and Senior Fellow at the Stanford Institute, and well-known sports economist Andrew Zimbalist edited a landmark collection of their work and a dozen essays from other leading authorities on the business of sports, all debunking the conventional wisdom that a sports franchise was a fabulous economic engine.

Dr. Zimbalist is quoted as recently as 2009 on the "Freakonomics" website as saying, "One should not anticipate that a team or a facility by itself will either increase employment or raise per capita income in a metropolitan area."

Traditionally, proponents of public financing claim sports facilities improve local economies in the following main ways:

- Building the facility creates construction jobs.
- People who attend games or work for the team generate new spending in the community, expanding local employment.
- A sports team attracts tourists and companies to the host city, further increasing local spending and jobs.
- All this new spending has a "multiplier effect" as increased local income causes still more new spending and job creation.

However, a national study completed in 2000 published by the Cato Institute failed to uncover a single case a professional sports team boosting its host community's economy.

2. Most stadium and arena spending comes from local metro residents.

According to Dr. Zimbalist, most stadium and arena spending comes from local metro residents, and as such, is simply a redirection of entertainment spending. Instead of spending their entertainment dollars at local restaurants and nights out dancing, they are spending at the ballpark or the arena. Their overall entertainment spending is constant.

Advocates argue new stadiums spur so much economic growth that they are self-financing: public financing and operating subsidies are offset by revenues taxes on ticket sales, sales taxes on concessions and other spending outside the stadiums, and increased property taxes from resultant real estate development and a general increase in community property values. In Milwaukee, with its narrow taxing authority, only the possible increase in property taxes is directly relevant.

3. Much of the income generated by the team is spent outside of the local economy.

Professional athletes often do not live where they play, so the bulk of their income is not spent locally, and high salaries players, managers, coaches, and executives earn result in high savings rates, so a large portion may be invested outside the host city. In the meantime, stadium and arena employees earn very low wages working part-time. Shifting entertainment spending from other entertainment options to professional sports tends to concentrate income, reduce the total number of jobs, and generally replaces full-time jobs with low-wage, part-time work.

Dr. Zimbalist allows that cities or counties may receive some level of economic benefit in publicly-financed stadium and arena deals where the sports teams agree to invest in development projects around the stadiums or arenas, but warns professional sports have been historically unreliable when it comes to promises to make such local development investments.

4. **Economic return is not the only reason for a city or county to finance a sports venue.**

Cities and counties spend millions to support a variety of cultural activities that are not expected to have positive economic effects, such as subsidizing local symphonies or maintaining public parks. A sports team can have a powerful cultural or social impact on a community, and many proponents for public financing have abandoned the economic argument and begun to claim that having a professional sports team enhances civic pride and a city's social status.

Economists recognize this "public good"—"externality" in economics parlance—is real, but also acknowledge that it is impossible to objectively measure, and will not be shared equally by all residents. However, the externality benefit generally explains why city and county residents may accept higher taxes or reduced public services to attract or keep professional sports teams, even though the investment does not "pay off" economically.

Many modern sports economists like Roger Noll maintain that public financing of sports facilities never generates an economic return. Sports economists cannot quantify or dispute the claim by public financing advocates that sports facilities are critical for a host city's self-image and prestige. Oklahoma City's wooing of Dell to build a $40 million Customer Care Center is a good example of the possible "prestige" value of a sports franchise. While having an NBA basketball franchise and a Triple-A baseball team cannot be directly linked to Dell's investment, these community amenities may have been the minimum "prestige" attractions needed to make Oklahoma City eligible for the competition for Dell's new center.