

**NAVY HILL COMMISSION QUESTIONS
RESPONSES SUBMITTED DECEMBER 17, 2019**

Questions from December 4, 2019 Meeting

Sponsorship Questions

- How do these "advances on payment for future potential marketing opportunities" affect the future sponsorship amounts that would be used for arena bond payments?

Early advances from potential corporate sponsorship sources to help underwrite arena design costs or other predevelopment activities have no effect on future potential marketing opportunities. Arena development costs are already accounted for in the arena budget and when bonds are sold, those funds become available to reimburse any funds advanced.

- What are the annual contractual sponsorship amounts for bond payments, especially during the initial years?

The annual contractual sponsorship amounts for bond repayments will be the same in year 1 as they will be in the final year of bond repayment: **\$2.21 million**. Agreements to achieve those amounts of dedicated proceeds will be in place prior to the bond sale.

Please also note the responses below to questions previously asked by the Navy Hill Commission about arena sponsorships:

Before addressing each of the specific questions below regarding the status of sponsorship (marketing partnership) sales in the proposed new Richmond Arena, it is instructional to understand how the development team has approached this subject, including the initial steps of a feasibility analysis identifying the region's corporate base, levels of interest in participation, establishing values for various marketing partnership levels, and finally, developer confidence in consummating these partnerships at the appropriate point in time when contractual commitments will need to be in place to provide assurances to the bond underwriting.

The approach included market research, focus group discussions with various corporate leadership teams within the Mid-Atlantic region, the vetting of integrated marketing partnership programming and concept ideas to be incorporated within the arena design itself, and, most importantly, the sales protocol itself – who is asking whom to participate in the program.

The goal of securing the highest possible level of regional and national sponsorship participation in the new arena must be as rigorously programmed as the design of the arena itself, so arena architects as well were engaged in the analysis.

When looking at the potential for long-term marketing partnerships in a state-of-the-art arena, Richmond enjoys several advantages over other cities of comparable size. These include:

1. Richmond is the Capital City of a large and consequential State that is currently not well served by an arena of this scope. There are approximate 80 arenas in the U.S. over 15,000 seats, and none of those exist in the Commonwealth of Virginia.

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2. *Richmond is home to seven Fortune 500 companies, with 14 additional F500 companies located within the Commonwealth.*

3. *An arena positioned as this one will be – in the urban core, next to the GRCC, the Bio+Tech Park, and the VCU Health Systems campus – will be able to offer a very high- profile B to B benefit to marketing partners.*

4. *The arena will be associated with an exciting and diverse mixed-use development that itself will have a regional and even national profile.*

The experience of the development team itself is a major contributor to creating added value to an arena marketing partnership program in Richmond:

- *The arena developer – members of Capital City Partners are innovators in public/private arena development and have helped to create integrated sponsorship programs in dozens of successful arenas throughout the US.*
- *The arena architects - HOK, have earned international respect in the design of arenas that feature creative revenue producing elements like sponsorship showcases, and premium seating and suite programs that support sponsorship fulfillment.*
- *The arena operators –selected from an elite shortlist of national and international facility managers experienced in the business of maximizing arena revenues. In this case, the operator’s investment return is linked to the successful execution of a robust marketing partnership program, so there is additional motivation to secure high value partnerships*
- *The Navy Hill Foundation Board – who have been, and will continue to be, a primary force in promoting the advantages of business partnerships between Richmond’s regional businesses and the new arena, and in helping to secure commitments from Richmond’s largest and most consequential employers. These board members have participated in other similar and successful programs to promote a better Richmond and are in a position to make the case for a high-value arena marketing program to these companies.*

The protocol to date has been that the development and design team has created a hierarchy of marketing partnership categories and have used these to test the market in one-on-one presentations with candidate companies. These categories included:

- *Arena Naming Rights (1)*
- *Founding Partner (6+)*
- *Sustaining Partners (10+)*

The value of the first two categories is believed to be approximately \$2.8M min, with \$2.21M of that total dedicated to arena bond underwriting. At the appropriate time in the procurement process with the City, and as the arena operator is fully in place, these marketing partnerships will become contractually obligated – a requirement for bond underwriting.

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Candidate businesses with which the developer has already engaged have been identified from a well-known list of the area's largest employers. These companies are all active in regional business associations, philanthropic boards, and other traditional organizations. Each of these candidate companies have a desire to see a successful Navy Hill and a new Arena developed as it helps to solidify Richmond as a place where their current and future workers want to live. Navy Hill and the Arena gives their recruiters additional features and benefits to tout when promoting Richmond as a city with diverse benefits.

With that background as context, the answers to the specific Commission questions below are as follows:

Sponsorship Q1. Information in writing as to where we are in regard to sponsorship revenues, especially the naming rights for the arena since this is expected to be the main single source of sponsorship revenues.

Sponsorship A1. The groundwork necessary to secure the arena's naming rights as well as most of the Founding Partner sponsorship categories has been accomplished by the Navy Hill development team with enough certainty to allow initial design of the arena to be underwritten. These marketing partnerships will be shared with the arena operator when that agreement has been consummated, and it will be the arena operator who will finalize, in writing, these agreements. The agreements (\$2.21M identified in the revenues required) will become part of the bond underwriting.

Sponsorship Q2. Have the naming rights been sold, and if so to what company?

Sponsorship A2. Yes. The arena naming rights and other marketing partnerships will remain confidential until Council approval.

Sponsorship Q3. What are the current negotiated terms concerning total amount, duration, and payment stream?

Sponsorship A3. The terms of the partnerships vary. Most are annualized, while some are a lump sum to facilitate the development of a specific feature of the arena. Durations will vary from a one-time contribution to 20-year terms for the naming rights. Founding partners will be between five- and ten-year durations.

Sponsorship Q4. Are there draft contractual arrangements with other major sponsors, and if so, what is the total amount involved with these?

Sponsorship A4. Yes, those Marketing Partners who have already committed to up-front payments, required to advance the arena design, all have agreements in place. To date those contributions have totaled over \$4 Million and are part of terms that will be shared following Council approvals.

Sponsorship Q5. What is the current draft contractual language in the financing documents concerning application of sponsorship revenues towards bond repayment? This is important because the developer agreement defers to the financing documents for details on sponsorship.

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Sponsorship A5. The bond offering will be drafted 60-90 days in advance of any bond sale. Specific contractual language concerning necessary sponsorship funds directed to bond repayment will be drafted during this period as a “condition precedent” to the bond sale.

Q: Are there any private dollars in the Coliseum proposal?

A: Yes. There is a significant at-risk private investment in the New Arena. This comes in several forms, including:

1. Marketing Partnerships, both pre and post City Council approval. In order to advance design and cost analysis of the new arena (necessary to establish a proposed bond amount), the arena design has advanced to a “design development” stage, which is an industry term that describes the level of architectural design completeness. To get to this stage in the process, millions of dollars were required to pay a wide range of specialty consultants with unique experience in this building type, including the arena architect HOK, structural and MEP engineers, sustainability consultants, geotechnical consultants, cost estimators and others. The source for these funds has been in the early round of a marketing partnership program created by the developer that will continue when the arena opens under the direction of the arena’s private operator. Marketing Partnerships are a traditional source of private funding in arenas used for both construction and ongoing operations. In this case it has been utilized to advance the project without any public funding. Annually, the marketing partnership program is projected to generate \$3-4 million of private investment available for arena operations, and a portion to pay the debt service on the bond.

2. Private Arena Operator Investment. As is the case with the GRCC, the Altria Theater and other public assembly venues in the area, the arena will be operated by an experienced private operating company. Uniquely to the new arena however, the operator will be required to provide substantial capital investment in the arena construction and operations. These include:

- a. Underwriting the cost of arena Furniture, Fixtures and Equipment*
- b. All pre-opening expenses*
- c. Funding of a contractually obligated annual repair and replacement fund*
- d. Assumption of any operating losses without recourse to either NHDC or the City*

3. Suite, Club Seats, and other premium inventory advance sales. Unlike the current Coliseum, a substantial source of revenue available to fund the arena operations will come from contracts with Richmond regional companies for suite and club seating licenses. The term of these contracts is between 3 and 10 years and serves as a diverse, private corporate investment in the arena. Whereas the maximum of amount of suite

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revenue possible from the current Coliseum's nine suites is about \$200,000 / annually if all of that inventory had been sold (it wasn't), the amount of such revenue expected in the new arena, which includes 28 suites and 34 Club boxes, along with annualized club seating sales is projected to be approximately \$3 million annually.

Questions from December 7, 2019 Meeting

Minority Business Enterprise Questions

- Please provide a copy of the Minority enterprise plan to the entire commission.

The Development Agreement requires the Developer's MBE Plan as defined in Section 10.3. The Developer has already hired the MBE/ESB Coordinator required by Section 10.4 of the Development Agreement. The MBE/ESB Coordinator, the City's MBE Office and the Developer are in the process of drafting the MBE Plan but have not finalized it. The final MBE Plan is required to be provided to the City within 14 days of execution of the Development Agreement but the City MBE office has been meeting every other week with the MBE/ESB Coordinator. The planned timeline to complete the MBE/ESB Plan is January 2019 based on the general project schedule. The requirements of the MBE/ESB Plan however are set forth in 10.3(c) (iii) of the Development Agreement for performance measurements, Section 10.3(d) for the definition of good faith efforts and Section 10.4 for compliance monitoring and reporting. Each of these provisions will be incorporated into the contracts on a back to back basis.

- Can you also estimate the amount of minority business work attributed to warehousing of materials?

The Developer does not anticipate any off-site warehousing of materials. Construction materials are typically directly shipped from the manufacture to the site.

In the event there is an off-site warehousing, Section 10.3(c)(iii)(F)(ii) of the Development Agreement discounts the cost of any materials or supplies by 40%.

Architecture & District Designation Questions:

- What architectural strategies will the Navy Hill development team use to knit the development into the existing fabric of the city of Richmond? What materials, features, and strategies for scale and massing will be used to make this new development compatible with and emblematic of Richmond, Virginia? Can language about architectural compatibility be included in the development agreement (language added to the Master Plan)?

The Development Agreement requires the preservation of the Blues Armory and rehabilitation in accordance with the standards required by the Schedule F-2, in addition to the requirements of

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Exhibit H to the Development Agreement which requires the Developer to reconnect the street grid – connecting the Project blocks to historic Court End as well as reopening 6th Street. The text amendment to the zoning ordinance identifies priority and street-oriented commercial streets within the project blocks north of Broad Street, requires the development form to follow the six design principles identified in the Pulse Corridor Plan for quality pedestrian-oriented development in scale and massing and provides meaningful open space throughout the development (Exhibit D to the Development Agreement). All of these components tie into existing fabric of the city and establish development criteria to ensure compatibility with the city’s master plan goals. Projects that will be developed will require Plan of Development review for all facilities. Public improvements will be reviewed by City and the UDC/CPC. Both of these review processes will guarantee that the development reestablishes the fabric of the area into the broader Richmond framework.

- Request that the Blues Armory and the 6th Street Garage be listed as City Old and Historic Districts so that there will be ongoing review of these landmarks by the Commission of Architectural Review.

The Development Agreement requires standards by which the Blues Armory and the Richmond Garage are to be rehabilitated. These standards were created in consultation with an historic architect and the executive director of the Historic Richmond Foundation. The Blues Armory is required to be maintained pursuant to the Armory Lease for the term of 65 years. The Developer is willing to include a covenant regarding the Richmond Garage in addition to the requirements of the Development Agreement.

Day 1 Benefits & Project Timeline

- Can the city provide a list of expected benefits accrued from “Day 1” (when the ordinances, developer agreement, and associated financial instruments are executed)? Can the city provide a timeline of when critical benefits are projected to be realized?

Multi-block benefits:

1. MBE/ESB Plan implementation
 - Final MBE Plan required within 14 days of execution of the Development Agreement.
 - MBE Coordinator has already been hired.
2. Jobs – construction moving to permanent as the buildings open (see development timeline previously provided an included below). Section 10.5 of the Development Agreement requires the following:
 - convene at least one job fair in each council district of the City on or before the date that is six weeks of the execution of this Development Agreement
 - recruit City residents first for job placement by conducting an outreach program that targets neighborhoods with the highest concentrations of poverty

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- work with willing workforce development teams and training providers (including the Community College Workforce Alliance) to conduct a comprehensive training program;
 - target City residents for employment opportunities
 - create an ongoing jobs pipeline to benefit students in Richmond Public Schools through recruitment, training and internship programs
 - convene at least one construction/trades job fair in each of the following RRHA rental properties (Gilpin, Mosby, Creighton, Fairfield, Whitcomb & Hillside) within the first six weeks after ground breaking
 - convene at least one hospitality job fair in each in each of the following RRHA rental properties (Gilpin, Mosby, Creighton, Fairfield, Whitcomb & Hillside) two months prior to the opening of the Hotel)
 - meet with the resident leaders of the following RRHA properties (Gilpin, Mosby, Creighton, Fairfield, Whitcomb & Hillside) to share information on the Project and related employment opportunities
 - distribute flyers and post signs about Project construction and permanent (hospitality, professional, security, etc.) job openings at all of the City Council District meetings and in the following RRHA communities (Gilpin, Mosby, Creighton, Fairfield, Whitcomb & Hillside) and
 - place job ads with multiple media outlets including local and smaller newspapers located in the City of Richmond.
3. Clay Street reopened from 5th to 8th with the CO for the first building on Block A (arena, office and multifamily) and to 10th with the development of Block D (with the demolition of the public safety building)
 4. 6th Street reopened with development of Block F (convention hotel)
 5. Environmental benefits with enhanced stormwater detention, open space/landscape requirements, construction of all buildings to LEED silver as minimum standard
 6. New services and meals tax generated (1.5% meals tax from project blocks continues to flow to schools)

Specific Blocks and Timeline

11/2020 anticipated closing on Block F

1/2023 construction completion

- Renovated Blues Armory and maintenance requirements set forth in Lease with private funds
- Convention Hotel with room block agreement without subsidy (\$50 million + benefit to City)
- Grocery

5/2021 anticipated closing on Block C

4/2023 construction completion

- GRTC transit center shell
- Public open space
- Affordable housing (23 units projected)

6/2021 anticipated closing on A2

- Jobs (minimum 254,000 square foot office building)

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- 3/2023 construction completion
 - Affordable housing (42 units projected)
- 7/2021 anticipated closing on Block E
 - 1/2023 construction completion
 - Affordable housing (21 units projected)
 - Wrapping parking deck to improve pedestrian walkability
 - Public open space
- 11/2021 anticipated closing on Block D
 - 12/2023 construction completion
 - Demolished public safety building (paid for with private money)
 - Reopened Clay Street to Court End
 - Jobs (minimum 475,000 square foot office)
 - Relocated Doorways facility
- 3/2022 anticipated closing on Block B
 - 10/2023 construction completion
 - Affordable housing (44 units projected)
 - Wrapping parking deck to improve pedestrian walkability
- 5/2012 anticipated closing on Block U
 - 3/2024 construction completion
 - Preserved façade of Richmond Garage
 - Affordable housing (42 units projected)
- 5/2023 anticipated closing on Block I
 - 1/2025 construction completion
 - Affordable housing (51 units projected)
 - Major retail services
 - Linear park
- 7/2023 anticipated closing on Block N
 - 5/2025 construction completion
 - Affordable housing (57 units projected)

Please also see Davenport’s November 2nd presentation to the Commission as it relates to projected Net Revenues to the City’s General Fund over the first 5 years of the project – \$17.6 million with the project, compared to \$9.9 million without it. Please also see the below list of specific short-term financial benefits to the City if the project is approved.

- Stop paying debt service on the functionally obsolete Coliseum from the general fund
- Prepare to save hundreds of thousands from DPW’s general fund budget that is tied to providing security and otherwise mothballing the Coliseum
- Prepare to appropriate millions in proceeds from the sale of public land to cash-fund capital projects such as Schools and roads
- Receive increased proceeds from the 1.5% meals tax increase dedicated to school facilities
 - The 1.5% meals tax increase is not used to repay the bond debt.
 - The estimated value of this in years 1-5 (2020-2025) is \$1,377,312.00
 - Over the life of the bonds the estimated value of this is greater than \$28,000,000.

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Questions from Mr. Gerner dated December 11, 2019

- Please provide the following - All appraisals and value estimates for the development parcels identified in City Council Ordinance 2019-211, including those efforts privately conducted for the developer entities.

The City did not get any specific appraisals done as was noted in a written response to Council's questions from its September 23, 2019 work session.

<http://www.richmondgov.com/mayor/documents/ResponsesQuestions20190923CouncilWorkSession.pdf>.

- City Administration estimates of the cost to provide the necessary infrastructure improvements needed to make the development parcels buildable.

The City would typically bid out this type of capital project to develop cost estimates. In the instance of the Navy Hill project, the City is not responsible for building the infrastructure or remediating the sites. Therefore, the City did not bid out the project. However, as the Developer is responsible for paying the infrastructure cost of the project they have created cost estimates. The private development blocks will incorporate several major infrastructure improvements and the developer will pay for those improvements, thereby saving the City millions of dollars.

These infrastructure improvements will include the following:

- Demolition of the Public Safety Building (including any potential environmental remediation)
- Construction of a pedestrian plaza on 6th Street between Marshall and Clay
- Construction of Clay Street from 5th St. to 10th St. (including any cost to fill (or close the ramp/build on top of) the Coliseum tunnel)
- Straightening of 5th St. and 7th St.
- Build out the retaining wall on the north side of the Coliseum Parking Garage parcel from its current boundary to the newly established boundary between Leigh St. (as reconfigured) and "Parcel B" (which will include portions of closed Leigh St.) - as doing so is necessary to make possible the contemplated private development wrap around the garage.

These improvements are not yet designed. With input from our civil engineering team at VHB, we have studied costs of similar infrastructure improvements and have an early conceptual estimate that these improvements will cost within a range of \$26 million to \$38 million – plus the costs associated with sidewalks and streetscape.