*Rebuttal to:*

# Navy Hill Commission Presenter

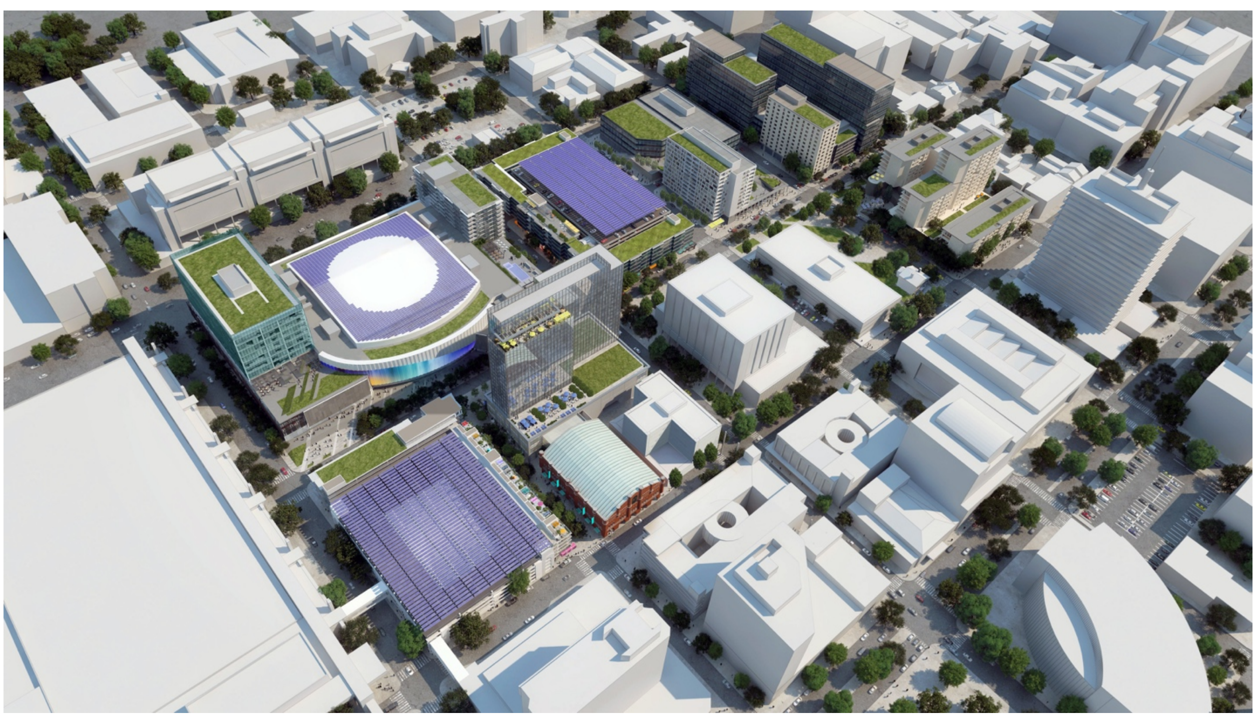
# Richard Meagher

Arena Demands and Synergy - Key Areas of Risk

November 16, 2019

*By:*

Michael Hallmark



*Rebuttal to:* Hill Commission presenter Richard Meagher

# Arena Demands and Synergy – Key Areas of Risk

Michael Hallmark

**Purpose of this Paper:**

At the Navy Hill Commission hearing on November 16, 2019, the NHDC team presented the case for **Arena Demand and District Synergies** created by the Navy Hill Plan.

Also, on that day, the Navy Hill Commission provided formal agenda time to Professor Richard Meagher, who presented a slide deck entitled **"Arena Demands and Synergy – Keys Areas of Risk".**

As these two presentations were presented side-by-side, there was a false impression created that they had equal merit – two well-founded perspectives that come to different conclusions.

All Richmonders deserve to be heard on this subject. Each opinion matters. But when opinion is made to appear to be expert testimony on critically important subject matter, and at odds with facts, then a rebuttal is not just warranted, but required.

Councilmembers need industry-supported, fact-based information in order to fulfill their duties. They need to be able to know which of the many opinions they encounter are grounded in experienced professional rigor, and which aren't. From that, they can form thoughtful judgment.

Following Professor Meagher's presentation, Commission Chairman Homer offered NHDC an opportunity for a response, however, in the interest of time, to provide its response in writing.

This paper is offered to the Commission as NHDC's response to Professor Meagher's presentation.

We are grateful for the opportunity to do so.

**Response:**

The inclusion of a "Third Party Professor" on its November 16, 2019 formal agenda suggested to the public that Richard Meagher, Associate Professor of Political Science at Randolph-Macon College had a relevant background and specific credentials to opine on the feasibility of a new arena as well as a new arena's synergistic value to ancillary development.

He has neither.

As one Commission member noted, Professor Meagher's remarks – clearly partisan and non-peer-reviewed – "should have been made during the public comment section of the agenda", along with other community members expressing their own opinions.

Because Professor Meagher's presentation ranged so broadly and subjectively across various and unrelated topics, the rebuttal that follows is set up against his own slide-by-slide presentation so that his points are accurately represented, in his own words

## I. Selected Inapplicable Standards of Review

***From Meagher's Presentation:***


**"Actively Engaged in Urban/Local Politics"**

Despite the fact that he stated early in the presentation that he is "not an amateur" on the topics under consideration, he appears to have no academic or scholarly background on any of the subject matter, no peer reviewed papers on the subject matter, and no professional experience which would qualify him for something other than amateur standing. Being a "skeptic" of arena financing involving public participation, without the requisite credentials to serve as an expert in a least one of the core areas necessary, e.g. arena operations, arena design and construction, urban planning, mixed-use real estate development, real estate finance, economics, public finance, does not make someone an expert. Enthusiasm is not a credential.

**"Skeptical about Arena Projects"**

Much of Professor Meagher's presentation engaged in straw-man arguments and in conflating issues that are not in any way related in the Navy Hill proposal.

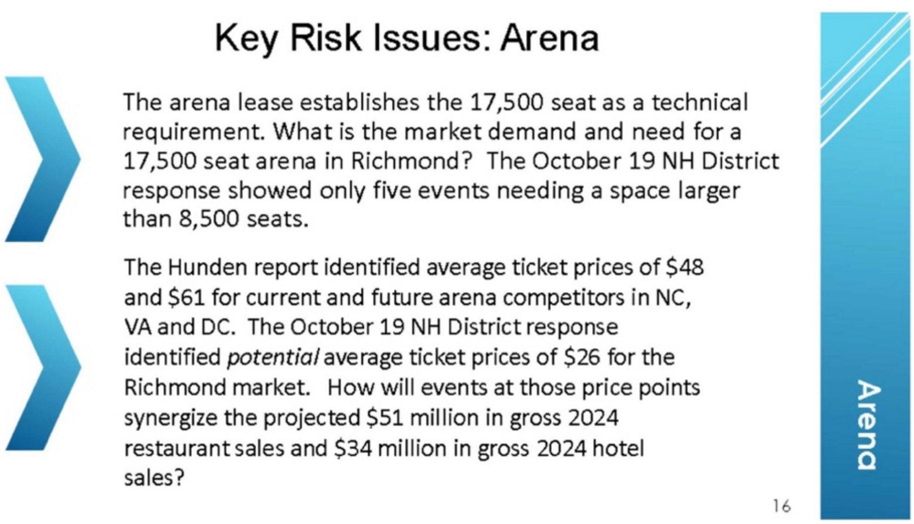
That is the case at the outset with his declaration that his "fave text" is "Field of Schemes", which is indeed an excellent book of anecdotal stories of billionaire sports team owners using leverage from their exclusive membership in major league team ownership to coerce cities into building stadiums for them – in many cases stadiums that they themselves could pay for. But that has nothing whatsoever to do with the Navy Hill project.

There is no team owner in the Navy Hill proposal – by design – and there is no threat of a team pulling out of the Richmond community. It is just the opposite. The Navy Hill proposal is about attracting significant new investment capital into the City, for the benefit of the community.

Dr Meagher unfairly biases the discussion from the outset by conflating the North of Broad development RFP process and subsequent Navy Hill proposal with the heavy-handed maneuverings of major league team owners and the development of football stadiums and ballparks elsewhere. These things have no connection to one another, at any level.

## II. Conflated Studies and Their Purpose

### *From Meagher's Presentation:*




Pierce Homer, "Navy Hill Commission Risk Matrix and Issues," Presentation to Navy Hill Commission, November 2, 2019. http://www.navyhillcommission.org/Pierce_Homer_Nov_2_Risk_Matrix_Presentation.pdf

***"What is the market demand for an arena of 17,500?"***

The market demand is sufficient to convince the nation's largest arena operators to:

1. invest its own capital in a new Richmond arena, with the chance it would lose it if the arena does not perform,
2. take in the year-to-year risk of the operating losses, if any, and
3. manage a cap-ex fund that would assure the arena is kept up to date over the 30-year life of their operating contract.

NHDC competed the arena operations role to the four most respected and most experienced arena facility managers in the US: SMG, OakView Group, AEG and Spectra. Aside from requiring them to create their own pro-formas on which their subsequent proposals would rely, NHDC also asked them to propose terms and conditions to the three primary areas of operational risks shown above.

Once an arena operator is on board and investing its own capital and resources, it no longer matters whether or not there is line-by-line agreement on a third-party feasibility study (in the case of this arena proposal, by CSL) and the operator's own proforma. At that point in the process, the feasibility study has performed its valuable service and its findings used to help negotiate a competitive agreement with an operator, who in effect 'owns' the operating pro-forma at that point.

That is where we are is in the process – Spectra has created its own business model and projected performances that are more aggressive than those shown by CSL.  And they "own it".

***"Only five events above 8,500 seats"***

CSL did not provide event-by-event attendance in their report but rather averages by event category. However, if there were only 5 sellouts in the new arena, profits from those sellouts drive a material portion of the arena's profits. In any case, as shown below, sellouts are not what determine overall arena size.

***Conflating CSL, Hunden and Spectra pro-formas***

One of the tables in Spectra's own proforma summary, which was provided in the October 19th response, shows the potential gross ticket sales of $17,735,250 for 181 events. With the total paid attendance projected to be 683,000, which means an average ticket price of $26.

What Professor Meagher is not doing is making the distinction between differing price points with different types of events. The table from Spectra clearly shows concert tickets ranging from $40-$60/ticket, and the Hunden report is likely using their prices only for concerts as well. The lower cost events in the table provided are what drives the average down to $26. The comparison is meaningless, and not relevant to district spending outside the arena, which is an assumption Professor Meagher also makes.

NHDC engaged CSL in arena feasibility studies, not Hunden. Hunden was commissioned directly by the City of Richmond as part of its own peer review process. Issues of ticket pricing found in the Hunden Report are not in any way related to the CSL analysis, and more importantly have been completely superseded by Spectra and the arena operator's own projections, on which it solely bears the ultimate risk to deliver.

***"How will events at those price points synergize projected restaurant and hotel sales?"***

They have nothing to do with one another. Professor Meagher seems to suggest that the "synergy" of Navy Hill is based on the cost to attend an event in the arena, which is not true.

Bringing people to downtown, from other parts of the region or country, is the goal of the arena. The price of a particular arena event is not as relevant as the fact that they are present in our downtown and spending dollars before and after these events.

The case for arena synergy is based on its proven role, in many other examples cited by the development team, as a district development catalyst and as a complement to the convention center.

***Where did the initial 17,500-seat figure come from?***

Initial seat counts were proposed by the City of Richmond RFP as a starting point in the arena development process. NHDC, along with its various arena experts, believed it to be a reasonable starting point in evaluating arena operations, cost, and programming. If we did not think so, we had sufficient time, and experts, to propose alternates. We did not do so because the seat count, in the end, fits with national norms as well as our own internal evaluations.

Submitted with this paper is an exhibit showing the top 50 U.S. Metro areas. Richmond is 44 on this list. Of note is the seating capacity of these arenas which demonstrate that a 17,500-seat facility in Richmond would in no way be an outlier. That is not ultimately how arenas are sized, but given that most of the programming for US arenas come from touring shows, concerts, or sports franchise that all have a national network to respond to, and an arena that is too small (less than 15,000) or too large (greater than 19,000) would be suspect.

No one wants to build an arena that it too large. But even worse is to build one that it is too small.

***How is seating capacity determined?***

It is important, first, to understand what is meant by an arena capacity of 17,500. If Professor Meagher himself understood the distinction of an overall maximum seating capacity in contrast with the various and discrete use demands of specific event programming, he does not attempt to explain it to the Commission, but rather conflates issues of "average attendance" with maximum overall arena capacity.

In the design of large venue design and programming, a maximum seat count is driven by the various program configurations, for which flexibility is required. Some of the arena seats are fixed, some are retractable (left on the floor but stored in a retracted mode) to make room on the event floor for various event staging, and some are portable.

The “technical requirements” that are made a part of the arena lease establish a more precise seat count for these various events and can be found in the HOK design documents.

There are approximately five major types of events that require different seating configurations, and each of these represent a different seat count and ticket manifest. These configurations along with the seat count Navy Hill and its expert arena development team, as well as its at-risk operator, Spectra, have incorporated in the design are as follows:

1. End Stage Concert mode -180 degrees from stage edge: 14,822 seats
2. End Stage Concert mode – 270 degrees from stage edge: 15,722
3. Hockey (NHL pre-season, AHL, or ECHL): 13,530
4. Basketball (at all levels): 16,250
5. Center Stage Concert: 17,150

*Maximum seating possible for special center stage events: approx.17,500*

The critical seat count in the above list is the first one – the ‘end-stage’ concert mode. That is the program type that is most represented in the marketplace with over a hundred tours crisscrossing the country.

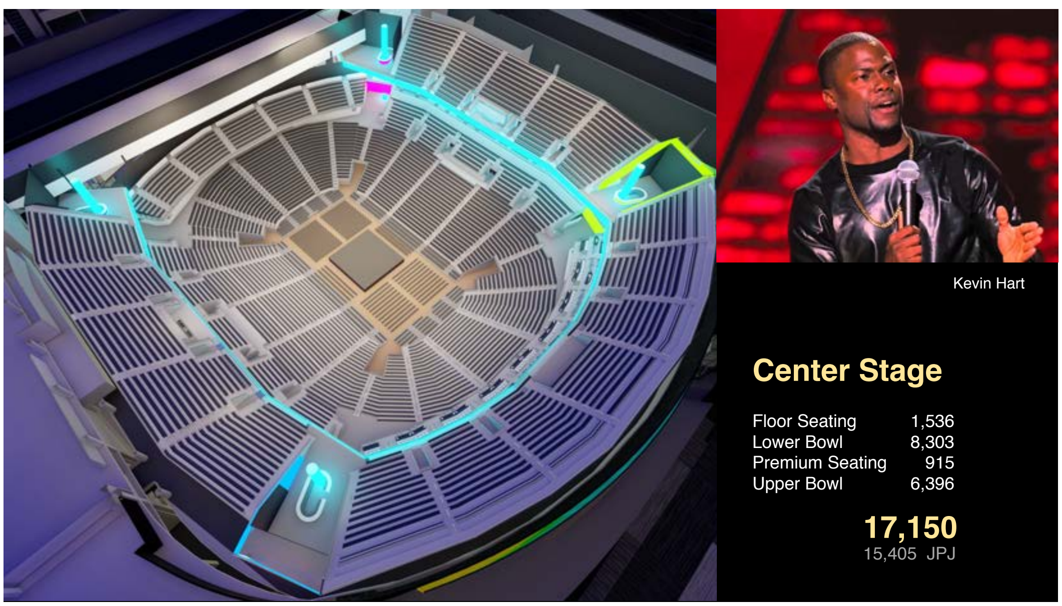
In order to get a seat count of 14,822 for a 180-degree end stage concert, there must be an overall seat count in the arena of at least 17,150 as those seats behind the stage are blocked. The “180-degrees” refers to all of those seats that are comfortably in front of the stage as per the illustration here:

John Paul Jones Arena in Charlottesville has approximately 12,467 seats in the end stage configuration, which means that if Demi Lovato played there, her tour would be limited to 12,467 total tickets as opposed to 14,822 at the new Richmond Arena. Lovato's last tour stop at Capital One Arena hosted 14,236 fans.

Tour promoters don't always know whether or not their artists are going to be able to sell-out a venue in advance, so there is always an advantage to an arena with some degree of upside in the seat count. If, for example, Lovato's tour promoters are looking at a stop between Capital One Arena in DC and PNC Arena in Raleigh, they will look to Richmond's end-stage seating capacity as a deciding factor when coupled with its location on the tour route, its demographic mix, and its overall population. They know that Charlottesville is unlikely to attract fans from Virginia Beach, but that Richmond would be able to capture both population bases, east and west.

'Center stage' concerts require the artists to play to all sides of the arena, but when they are a popular act with a large fan base, these shows can be extremely lucrative for both the artist and the venue.

Below is the configuration for a typical center stage event:



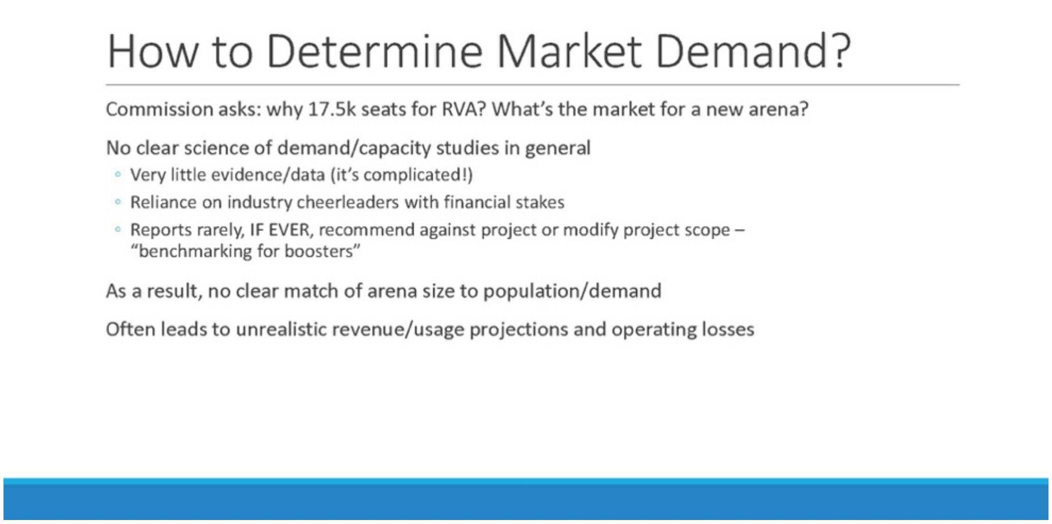

Kevin Hart is one example of an artist who can play to any range of seating, whether it is a theater setting, end-stage, or arena center stage.

In 2018 for example, Keven Hart played Capital One Arena in DC and drew 17,307, and also Wells Fargo Center in Philadelphia at 16,093. John Paul Jones center stage capacity is approximately 15,405 which means when Kevin Hart's tour promoter is scheduling future tours along the east coast, the tour would most likely include stops Philadelphia, DC, then Richmond. Often there is also a co-promotion with the arena operator, which helps to push shows to sell out status.

For regional basketball tournaments, pre-season NBA / NHL, and other non-tenant sports events, the decision whether or not to come to a city like Richmond rests with capacity and with the quality of the facility. A new arena with basketball seating capacities above 16,000 would be a strong inducement to bring these kinds of sports programs back to Richmond as opposed to other cities.


## III. CSL Studies are Not “Booster” Studies

### *From Meagher’s Presentation:*



**Comments about CSL**

Throughout his presentation, Professor Meagher made multiple disparaging remarks about the methodology and even professionalism of CSL, who were commissioned by NHDC to provide feasibility analysis for the new arena in Richmond. Without any expertise of his own in this field, Professor Meagher contended, without evidence, that firms engaged in arena, stadium and other feasibility work were little more than paid “cheerleaders” (his term).

<u>Many of CSL’s studies provide evidence that a given project does not have an appropriate margin for success, and the project is either retooled, or dies</u>. They are never asked to state whether or not they believe a project should go forward, contrary to Professor assertion that an unbiased analyst would do that.

CSL is the nation’s leading advisory firm specializing in event feasibility analysis, organizational reviews, industry benchmarking and other services. The Greater Richmond Convention Center has regularly engaged CSL to help determine ways in which it can plan for future facility needs and to help our region compete with other metro areas in attracting conventions to Richmond.

CSL was founded in 1988 and has completed over 500 assignments throughout the world during that time. It has accumulated and tracked important data from every market sector in the United States and those cities that seek objective analysis in order to make critical decisions about future capital investments regularly seek them out.

Objectivity in this area of work is paramount, as it is in any area of paid research. CSL has nothing to gain as a company, and in fact everything to lose, if its work as seen as anything less than reliable and objective.

A feasibility study for an arena is not dissimilar to one that is commissioned for other real estate projects. The advising firm assembles regional demographic data, provides industry trends, financial projections, benchmarking and other important information in order for a broader team of planners, architects, operators and investors to determine how, or even whether, to advance a project.

Another of Professor Meagher’s straw-man arguments is that CSL never states that a project should *not* go forward, which seems to be the basis for his disparaging “cheerleader” comment. But no analyst doing this kind of work renders that kind of judgment. If this were Professor Meagher’s field of expertise, he would know that real estate analysts simply provide data, projections, absorption rates, comparable lease rates etc., and it is up to other professionals, investors or stakeholders to determine whether or not there is sufficient evidence to suggest a project is going to be successful.

When Professor Meagher suggests there is no “clear science of demand/capacity studies” he further demonstrates a lack of understanding of that industry. There is no clear-cut supply and demand ‘science’ for anything in sports and entertainment, theater, movies, plays or other similar events. The desire to attend an event is one that is marketed by expert promoters, talented artists, and fans who are aware of their choices through an ever-growing outlet of social media, paid advertising, and word of mouth.

How one determines how large an arena should be, how many suites it should have, how many concession stands, how many restrooms, how many loading dock positions, artist dressing rooms, how large the seats should be, how many seats should retract and a hundred other program determinants are arrived at by the engagement of seasoned professionals like CSL, NHDC’s own arena experts, architects and contractors who have evolved programming expertise over decades of successful developments.

That does not mean that every city in America makes good choices when deciding on a program size or configuration for a new arena. Charlotte built a major new arena in the late 80s. Despite advice otherwise, the team owner insisted on a facility far too large (24,000 seats for basketball) and located outside of the urban core. Those were key mistakes, well-understood by others in the industry at that time, that created an arena that was unsustainable.

Rather than Charlotte abandoning the idea that the City needed an arena at all because the one they built didn’t perform, it built another one, of the right size and location, and abandoned its mistake. Today, the ‘Spectrum Center’ serves as a unifying community venue in the heart of their downtown. The arena thrives and downtown Charlotte thrives.

Memphis built an inexplicable pyramid-shaped arena in 1991, against sound advice, for a relocated NBA basketball team. The concept for such an outlier venue was a failure from the outset, and it was eventually abandoned as a functioning arena. But like Charlotte, Memphis built the arena it should have built in the first place, better programmed, appropriately sized, and better sited. ‘FedEx Forum’ has helped to revitalize Memphis’ downtown and the famous Beale Street entertainment district.

***“…Often leads to unrealistic/usage projections and operating losses”***

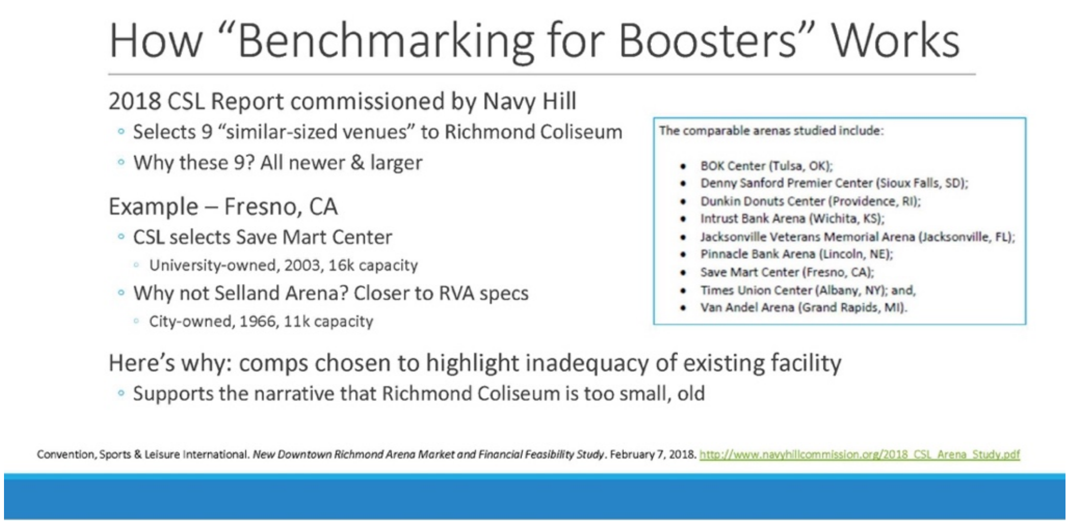
Professor Meagher makes this assertion without any specific evidence.

Seven of the nine “benchmark” (comparable) buildings operate profitably – these buildings are of similar size and operate in similar size or smaller markets than Richmond. Two lose money. The ones that lose money do so because of the unique situations in those markets and how the deals were structured to finance the arena.

In those cases, certain revenue streams that would typically flow to arena operations were dedicated to funding the construction costs – i.e. key sponsorship revenues, premium seating programs, etc. The impact of those particular funding structures set up those arenas to operate at a deficit.  If one chooses to dedicate too much of its contractually obligated income to pay for arena debt, then one might be setting up a structure in which the arena could lose money. Knowing the reasonable limits of a pro-forma is key as is properly assigning risk should there be shortfalls – all things NHDC has provided for in its arena plan of finance.

## IV. Obsolete Examples Are Not Comps

***From Meagher's Presentation:***




The logic behind the assertion that CSL selected certain buildings and left out other older and outdated ones only to boost the case for a new arena is bizarre. As an example, no feasibility analysis for the development of offices, apartments, hotels or any other facility would benchmark 50-year old obsolete structures or facilities to help influence the program for a future building with one of those uses. Arenas are no different.

The starting point for a new Richmond Arena is the unimpeachable assertion that the existing Coliseum is functionally obsolete. Not because NHDC or CSL said so, but because the industry has (unanimously) declared that it is.

Over time, there has been a slow and steady decline to irrelevance beginning with the loss of sports tournaments, then touring shows and eventually leading to a once 'point of pride' for Richmond becoming a public embarrassment, holding back tourism and limiting downtown development.

CSL rightly looked at a Richmond market that has already had a long and meaningful history with an arena, already has a strong corporate base that can and will support premium seat products and marketing partnerships and has a growing regional population of entertainment buyers as evidenced by its robust theaters and other regional venues.

One would never build/replicate a 50-year old building that has subpar fan amenities, no premium seating, terrible acoustics, limited technology, insufficient back of house space, etc. or a similar capacity already declared insufficient by the industry that must supply the touring acts.

It also makes no sense to develop financial projections for a 17,000-seat building by looking at the operations of an 8,000 or 10,000-seat building (they are two different economic engines), municipal buildings with no possibility of tournaments, minor league sports tenant or populations similar to or smaller than Richmond.

Professor Meagher asks why not pick the Selland Arena in Fresno as a comp as opposed to the newer Save Mart arena. Selland was not selected because it is even older and smaller than the Coliseum, equally antiquated like our Coliseum, and offers no possibility for corporate partnerships at any level.

No one would recommend that type of building – they are economically obsolete. That is why Save Mart was built in the first place – to replace Selland.

## V. No Understanding of the National Arena Marketplace

### *From Meagher's Presentation:*


**Cherry Picked Examples of failure**

Professor Meagher cherry picks two arenas that lose money to imply the new Richmond Arena would lose money. The flawed logic in this should not need to be explained, but it is the same as saying that some hotel somewhere lost money, so no one should build a hotel again, or that because some local area shopping center failed, Short Pump Town Center should never have been built.

Evansville, one of his proposed examples, is a fraction of the size of Richmond, doesn't fit geographically into tour routing (event promoters prefer to go to Louisville, St. Louis and Cincinnati), and is a much smaller building.

CSL did a market study for the Evansville Arena in 2001 and projected the building would lose money, and it did.

Citing the Greensboro Coliseum Complex financials also makes no sense. The complex has 8 total buildings and is not just an arena. Many of the building types at that complex typically need to be subsidized on an operating basis – e.g. exhibit hall, theatre, aquatics center, etc. Those facilities are a huge drag on the financial performance of the entire complex. Clearly, there are no naming rights for the Greensboro Coliseum which impact financial operations. The arena opened in 1959 and is antiquated – requiring high operating and maintenance expenses and is limited in revenue amenities.

The NHDC team thoroughly understands why some venues fail, and some succeed. While it might look like a game of chance to critics googling random examples, the choices that create successful cities and successful arenas are choices proposed in the NHDC proposal and verified by third party reviewers who otherwise have no ongoing interest in the outcome.

***A google internet search of operating losses does not make Professor Meagher or other critics experts on the arena business***

Professor Meagher does not come close to providing a proper and broad random sample size, nor does he make any attempt to understand the underlying reasons for the financial performance of any of the venues when making comparisons.

Ultimately, there were several different arena analyses performed by the NHDC consultants over the course of the two-year RFP process.

The first was by SMG, who was the arena operator of the Coliseum and who was included as a proposed operator for a new Richmond Arena in the original RFP response. Those projections were internal to the NHDC team, but were helpful in cross-checking projections, costs of operations, etc.

CSL was commissioned as a result of the City's request for a third-party assessment of the arena operating model, and as it turned out, CSL's financial projections were slightly more conservative than SMG's. But like any feasibility study undertaken for any real-estate use, once a tenant is in place, it matters little what the detailed results of the initial study were.

If one commissioned a study to determine how large a spec office building should be, what the lease rate should be, and for how long a term, and the developer was then able to secure a tenant for a better lease rate than what was originally projected, what is the point in debating the merits of the comps, lease rates, or terms in the original study? The study provided what it was intended to provide and was therefore a success.

In the case of the Richmond Arena, the CSL study helped point the way to an architectural program, event mix, premium seating and sponsorship underwriting that successfully led to an at-risk operator.

Another of Professor Meagher's red herrings is his statement that most arenas do not come close to breaking even if you include debt costs.  Of course not. No one is arguing that position and it is precisely the reason a public-private partnership is needed to construct the arena and why virtually all other arenas in the country have been built using some level of public participation.

Of all the arenas in the United States, the number that were built using only private investment dollars can be counted on one hand. If not for creative public / private partnerships, there would be no arenas with the exception of a handful in the largest markets with high performing major league sports tenants. The argument isn't whether arenas should exist outside combined NBA and NHL market cities, but how can those arenas be financed without recourse to their host cities, and how can those arenas help stimulate other desirable economic outcomes.

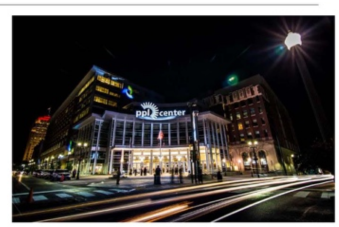
***From Meagher's Presentation:***

## Construction Costs a Concern

Arena project boosters often underestimate full construction costs
- "An almost natural part of building and infrastructure projects" (ASCE technical paper)

DC's St. Elizabeth's East basketball arena: $55M -> $68M
- Design changes, upgrades, and costlier supplies
- Taxpayers had to cover the difference (good to know: who pays?)

Tax structures can contribute to cost overruns
- Allentown's $180M PPL Center - most expensive minor league arena ever?
- Funded by Neighborhood Improvement Zone (NIZ) – all state taxes generated within the district pay debt for construction projects
- Critics: "an almost unlimited font of tax dollars without adequate oversight of how it is spent"




ASCE: Yehiel Rosenfeld. "Root-Cause Analysis of Construction-Cost Overruns." *Journal of Construction Engineering and Management* 140 (1): 04013039, 2014. https://doi.org/10.1061/(ASCE)CO.1943-7862.0000789.

DC: Andrew Giambrone. "Price Tag of Taxpayer-Funded Wizards Arena Grows to $69 Million." *Washington City Paper,* March 1, 2018. https://www.washingtoncitypaper.com/news/loose-lips/blog/20994367/price-tag-of-taxpayerfunded-wizards-arena-grows-to-69-million.

Matt Assad, "How Allentown built the most expensive minor league complex in the country." *The Morning Call*, September 19, 2015. https://www.mcall.com/business/mc-allentown-arena-costs-20150919-story.html

**Construction costs are a concern.**

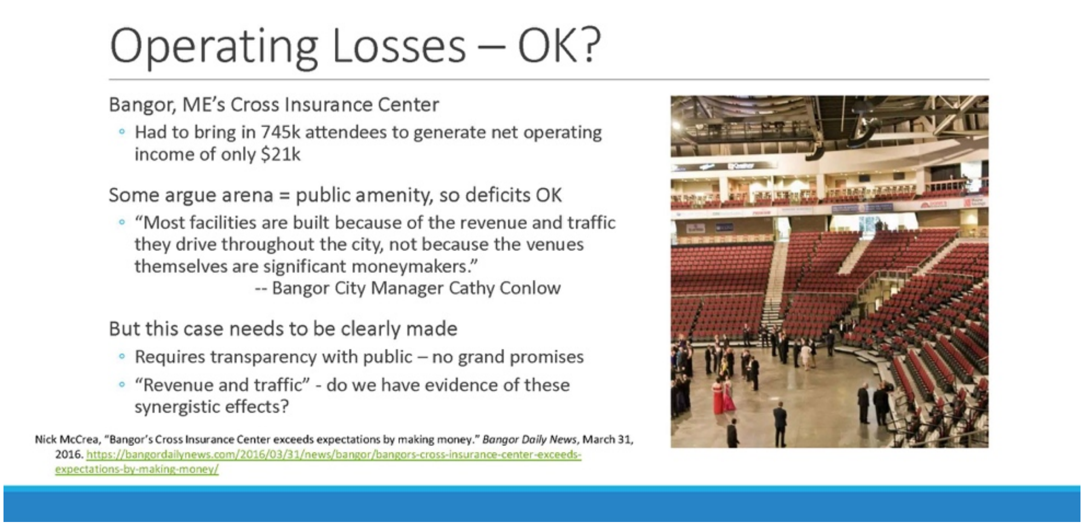
Of course, they are, which is why NHDC has advanced design drawings by leading arena architects HOK, as well as cost models, with contingencies, by Clark Construction in advance of asking the Council for its approval to proceed.

Furthermore, the agreements NHDC and the City negotiated require a Guaranteed Maximum Price from the Contractor prior to bond issuance, which will also be a requirement of the bond buyers. It is also why we require completion, payment and performance bonds of the design / build team in the transaction.

Do unexpectedly bad things happen in the course of complex projects? Yes, they happen all the time which is why the arena development team – developer, architect, contractor, operator, bond underwriters, bond counsel, and a long list of consultants are the best in the industry and accustomed to recognizing issues as they develop and working through them as they arise. In the end, the arena will cost the amount of the bond proceeds because that is the only source of funds. And in no case is the City in a "back-stop" position.

## VI. Bangor is Unlike Richmond

***From Meagher's Presentation:***




Professor Meagher found another straw-man on the internet. This one in Bangor Maine.

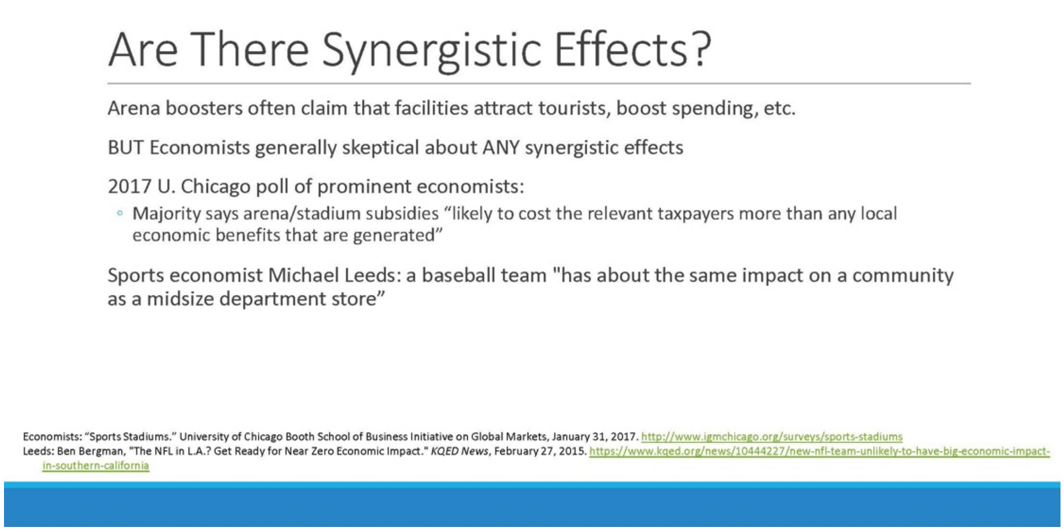
Not surprisingly, the Bangor Maine reference is not applicable in any way to Richmond. Bangor's building is 6,500 seats, has a 25,000 s.f conference center attached to it, is in a market that is 1/10$^{th}$ the size of Richmond and is located in an inferior geographic location. The events that the Bangor market attracts are ones that have low profitability or lose money – meetings, conventions, consumer shows, high school sports, etc. It is a completely different market.

We do not know Bangor's City Manager Cathy Conlow. Her comment on what may or may not be acceptable to Bangor residents might be appropriate there, but again, her views have nothing to do with Richmond or the Navy Hill's proposal. They certainly do not represent the industry.

Why include a random comment found on the internet and report that to the Commission as relevant if not to support a preconceived bias?

## VII. Sports Teams are not Arena-Anchored Developments

***From Meagher's Presentation:***




**"Skeptical Economists"**

This is a recurring theme in Professor Meagher's presentation. "Most economists think this" or "economists agree that…" leading to a broad indictment of something other than what is being proposed by the Navy Hill project.

The new Richmond Arena and the Navy Hill district is not a sports project. There is no team owner.

The books that Professor Meagher cites, "Field of Schemes" and the one below, "Sports, Jobs and Taxes" were written in the 90s, when there was a boom in billionaire owners holding cities ransom. These owners cited overblown analyses that touted the economic benefits their teams had on the local economy and they were correct in doing that.

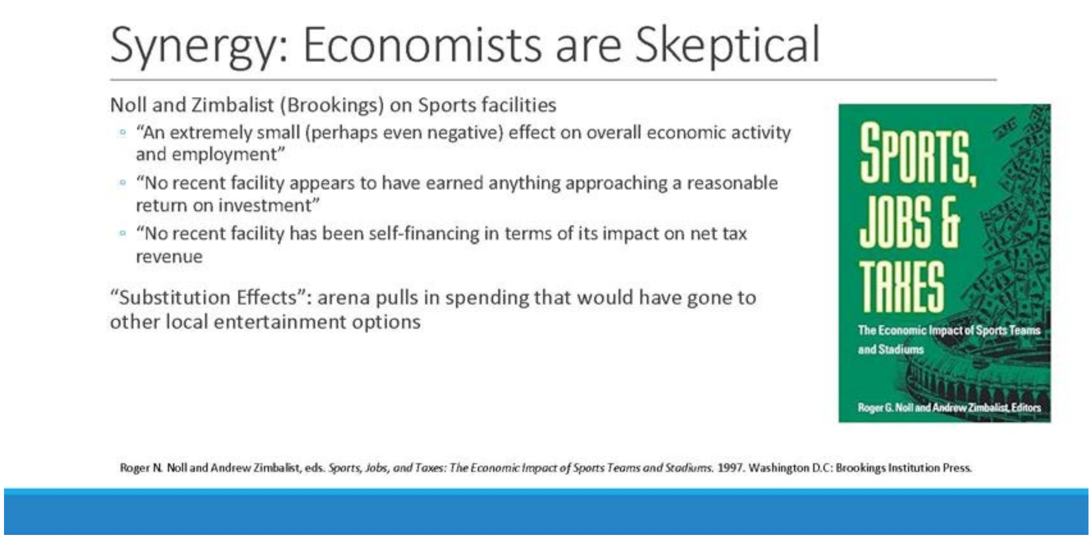
Today, in 2019, there is greater fairness in these kinds of projects, with cities extracting other community benefits from team owners, and owners paying a far greater share in the development of projects.

Additionally, many economists do not have the tools to assess the value of many things in cities, like the value of historic buildings, a concert hall with a great resident orchestra, walkable neighborhoods, cultural diversity and the synergies created by those things. The livability of cities is not something easily turned into a number by economists whose job it is to create formulas with knowable values.

Acknowledging all of that, the economists Professor Meagher is sure would be skeptical of our proposed arena project are reacting instead to something entirely different from the Navy Hill model. We believe they would embrace Navy Hill.

## VIII. Sports Teams are not Arena-Anchored Developments

***From Meagher's Presentation:***




***"Substitution Effects": arena pulls in spending that would have gone to other local entertainment options"***

Any Richmonder who has ever driven out to Short Pump Town Center and left their tax dollars in Henrico County knows this is false. The unique nature of Virginia government creates cities and counties with competitive jurisdictions that force each entity to invent unique, sustainable economic bases that become 'category killers' for the region. Otherwise we would be unable to fund services for our citizens.

Henrico's leadership knows this, has planned for this, and taken that advantage in the area of retail. They are thriving as a result and planning other attractors to help create a higher quality of life for their residents.

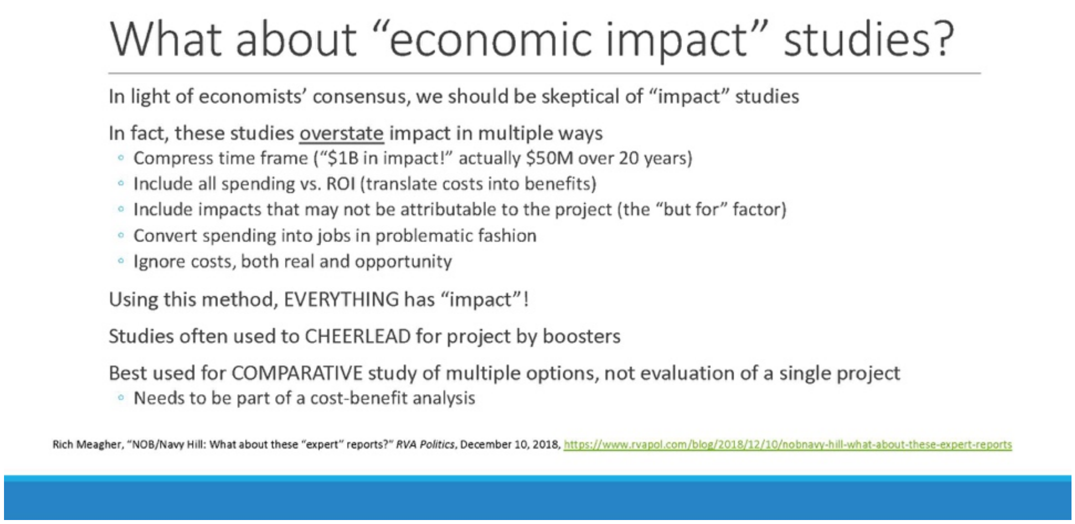
On the other hand, if Central Virginians wants to see touring shows like “Hamilton” or “The Book of Mormon”, they must come to downtown Richmond, park in our lots and structures, leave their admissions tax dollars, and their meals taxes with us. This is thanks to a unique public private development partnership - RPAC - created ten years ago by the city and the private sector.

Richmond must compete in the unique ways it can. We must invent venues and opportunities to bring people and their money to our borders - historic tourism, conventions, museums and live music and sports. As is the case with the Altria Theater, the more unique we make those destination attractors, the less of a substitution effect we will experience. The majority of Altria Theater’s customer base, for example, comes from outside the City borders.

It is certain the new Richmond arena will draw from well beyond our boundaries.

## IX. There is no Alternate Proposal

***From Meagher’s Presentation:***



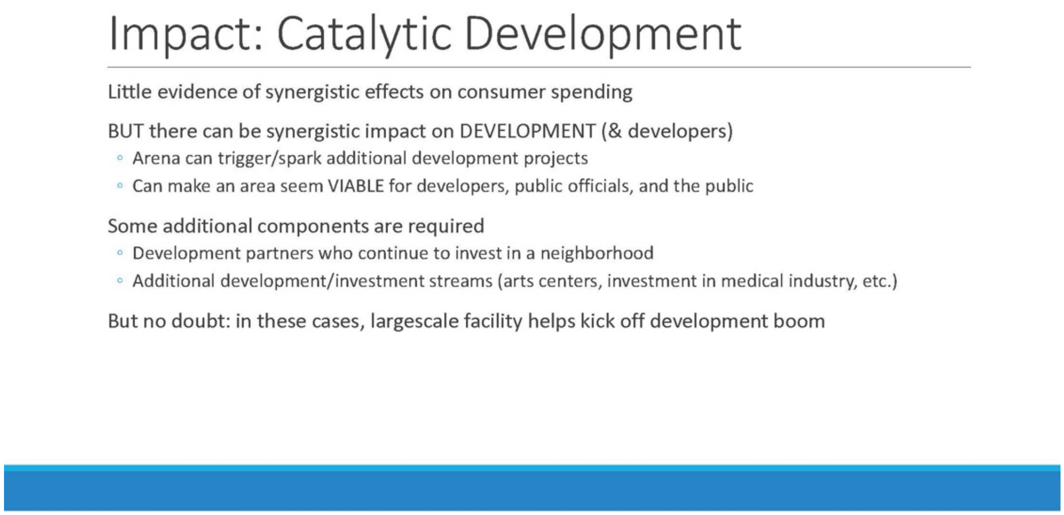

***“Best used for comparative study of multiple options, not evaluation of a single project. Needs to be part of a cost-benefit analysis.”***

There is no other proposal to which one can compare. The Navy Hill proposal calls for $1.3 billion in outside private investment to be brought into the City of Richmond.

“Something else” is not a proposal in front of the City. The alternative is to do-nothing.

## X. Evidence Supports Arena-Anchored Master Planned Districts

***From Meagher's Presentation:***




Finally, Professor Meagher gets to the real issue, which isn't greedy sports team owners, or stand-alone publicly subsidized ballparks, or what economists from the 90s think about all that, but instead the proposal at hand - an arena-anchored, mixed-use development that brings $1.3 billion of private dollars to invest within the local economy, which solves for a chronic Coliseum problem that otherwise does not have a solution, reconnects a broken part of downtown, provides for infrastructure and a long list of community benefits.

Over the last few years, there have been increasingly successful models of such developments demonstrated, many by the NHDC team members themselves who are part of the Navy Hill development. These projects have clear localized impacts in induced development, rising land value and, when negotiated, opportunities for cities to gain community benefits that they were never able to gain from block-by-block development deals.

There is no jobs training programming associated with a single apartment building development in Scott's Addition. No unsubsidized affordable housing in Scott's Addition. No Minority Participation goals or programs in Scott's Addition. But there can be those, and other benefits, with a district-wide approach for development in Navy Hill.

While the data might show that stadiums and arenas do not typically lead to broad regional increases in economic activity, there is strong evidence of localized impacts. Economists Feng and Humphreys (2012, 2018), and Propheter (2018) all find significant increases in real estate value near urban sports venues, and many stadium and arena projects such as PetCo Park in San Diego, Rogers Place in Edmonton, Staples Center and LA Live in Los Angeles, and Barclays Arena in Brooklyn, have seen significant commercial and residential real estate development in the area of the stadium following facility construction.

Well-designed arenas (like Navy Hill), built with an urban plan in mind (like Navy Hill) may also result in an agglomeration of entertainment businesses (Humphreys & Zhou, 2015). One of the emerging secondary themes of the Navy Hill project is the discussion with 2nd Street business owners in Jackson Ward about working together to bring that street back to the entertainment forefront, much like FedEx Forum helped to do in Memphis.

A concentrated entertainment district created by a stadium, such as San Diego's Gaslamp District or Denver's LoDo, may increase economic activity by creating a focused attraction for tourists and visitors from outside the city.

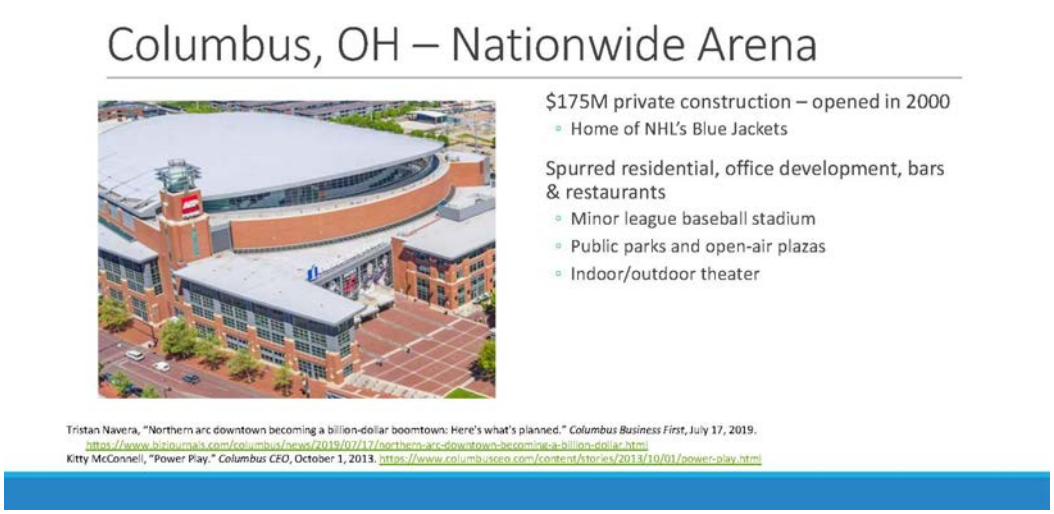
Additionally, as a result of the area's balkanized county/city governments, there is a real public policy and urban planning value to promoting this kind of development in downtown Richmond. Without it, we lose a significant advantage to our neighboring counties.

The NHDC position on this is not unique. It is commonly argued that vibrant and active downtown areas produce "unique and valuable intangible benefits for their cities" (Johnson et al., 2012). An economically healthy downtown provides a local identity, promotes the city's image, enhances civic pride, and serves as a melting pot for different races, ethnicities, and socio-economic classes (Rosentraub, 2008). If viable central business districts are more valuable to a metropolitan area's image and economic prospects than other locations in the area, it makes sense to direct investment to locate an arena and its accompanying economic impact into a downtown location in order to boost that area even if income in the greater metropolitan region is unchanged.

Economists are more united on this view than Professor Meagher is willing to admit.

## XI. We should Learn from Both the Successes & Mistakes of Other Cities

***From Meagher's Presentation:***



The arena district in Columbus was one of the first examples of an arena-anchored mixed-use development where the private sector did its part in bringing substantial capital, professional planning and execution to development, and the City did its part in creating developable real estate. It has won numerous awards from all sectors for its approach to city building and is a frequent stop for cities looking for ways to increase their own urban economies.

In the case of Nationwide Arena's financing, If the new property taxes were insufficient to cover the annual bond payment, Nationwide Insurance agreed to cover 60 percent of the shortfall; however, the project produced sufficient tax revenue to cover bond payments within just a few years of the arena's opening.

In 2016, Franklin County Convention Facilities Authority (FCCFA) purchased the arena from Nationwide Realty with loans to be repaid with revenues from gaming taxes; shortfalls from this revenue stream have led to an inability to fully service the loan, but arena management believes it will solve for that problem and have the loan paid off in 5 years.

The pluses have far outweighed the negatives however and, despite problems, the popularity of the Arena District encouraged the city to invest in a new ballpark for the Columbus Clippers (MiLB - AAA). Huntington Park opened in 2009; the construction cost was financed entirely by Franklin County. As of 2017, almost half of the ballpark's $42.5 million debt has been repaid using revenue from ticket sales, sales within the ballpark, and sponsorships.

Since the district's opening, downtown population has grown more than 60%, primarily in the 25-34 y/o range. Downtown employment has grown by 142%, with notable increases in finance and tech jobs. More importantly, if one were to ask the City leadership in Columbus if it made the right call back in the mid 90s, the answer is a resounding yes..

The question for these projects isn't should they have happened, but rather what can Richmond learn from them to make a similar development outcome even better.

## XII. Non-Recourse Bonds are Known - "Political Obligations" are Not

***From Meagher's Presentation:***

**City's "political obligation"**

Professor Meagher used the term "political obligation" several times to defend his position that, even though the City will have no legal responsibility whatsoever to the repayment of the arena bonds, he wanted to suggest that a "political obligation" somehow exists.

A "political obligation" is not a real or legal premise and that the City has any obligation of any form to the repayment of the arena bonds is false.

The arena bonds are non-recourse and do not require any "general" or "moral" obligation to the bonds or the bond repayment. In contrast to Professor Meagher's use of the term "political obligation", "moral" and "general" obligation are actual real legal constructs.

The arena bonds are secured by one form of collateral, the "pledge" of certain arena-related revenues and certain incremental tax revenues generated by the new buildings constructed and operated within the Navy Hill redevelopment and the City's designated Incremental Finance Area (IFA) within the downtown area.

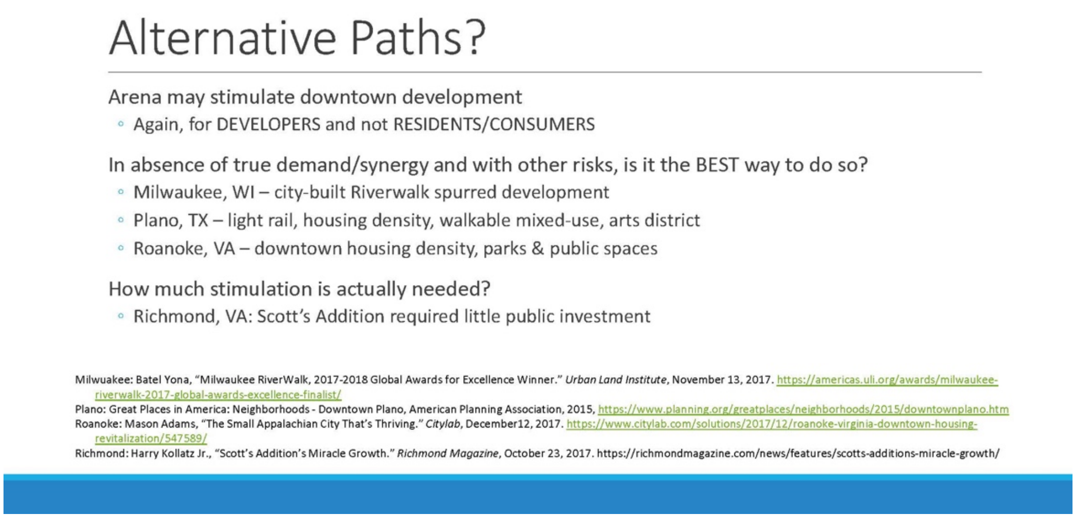
The vast majority of the revenues needed for the repayment of the bonds come from the new arena itself and the new Navy Hill developments. A much smaller revenue stream is the incremental tax revenue generated within the 80-block IFA. The IFA represents 6.5% of the total taxable assessed value of properties within Richmond; the incremental tax revenue generated by the 6.5% amount of assessed value is projected to be 2% of the 6.5% -- or .0013 of total assessed value. The City designated the IFA in order to boost overall IFA revenues in the first years of the bond issuance while the Navy Hill buildings are under development and not yet producing full tax generation.

Without the City's financial involvement (or "backstop") within the bond underwriting, it is necessary to put other forms of security in place to protect the bond buyers' investment. These security features include:

- The requirement of a 1.5 x debt service coverage ratio, meaning that for every $1.00 of bond repayment, the bond buyers believe there will be at least $1.50 in generated revenue.
- The funding of capitalized interest upfront so that interest payments can be made to the bondholders during the arena's construction.
- Two years of debt service reserve funding, meaning that if IFA revenues fell short of a 1x coverage, the bondholders will be able to be made whole from this fund. The revenue projections show over 1.5 x coverage throughout the term and the projections show that these reserve funds are held in full during the term, then paid to the City upon bond repayment.
- The faster pay-off of the bonds: the bond underwriting shows a 50/50 sharing of surplus revenues will occur between the City and the bondholders. The 50% share of revenues going to the bondholders will payoff the bonds in 19 to 21 years, rather than the full 30-year term.

# XIII. “Alternate Paths” - Random and Irrelevant

***From Meagher’s Presentation:***




***“Arena may stimulate downtown development for developers and not for RESIDENTS/CONSUMERS”***

It’s hard to imagine what Professor Meagher is thinking here. What is it he imagines developers and the city administration are doing with the Navy Hill project?

There is nothing in a development for developers except what it can provide for its customers – the residents and consumers of Richmond who are looking for a better city, more affordable housing, jobs, restored historic buildings and more options overall. If it fails, they fail.

The City is in complete control of what gets built there, and how it might benefit Richmond residents, not developers. If value is created then that value accrues to investors, residents, adjacent property owners in Jackson Ward, and beyond.

***In absence of true demand/synergy and with other risks, is it the best way to do so?***

We could not disagree with the first part of this statement more. There is overwhelming and sustainable demand for the arena uses and all the uses of the Navy Hill development, and there is less risk to the City of Richmond than any other public / private arena development, aside from a wholly funded NBA arena in a major city, than any known to us.

These are then offered by Professor Meagher as examples of what other cities are doing:

> ***Milwaukee, WI – City built Riverwalk and spurred development.***
>
> ***Plano, TX – light rail, housing density, walkable mixed-use, arts district***
>
> ***Roanoke, VA – Downtown housing density, parks and public space***

But it doesn't have to be Navy Hill vs other initiatives. It can, and should, be both.

Milwaukee built an NBA arena, Fiserv Forum, at the same time it is developing its Citywalk.

Downtown density is already a desired outcome in Richmond, and Navy Hill is expressly focused on providing a mix of higher density downtown residential, for sale and for rent, with record numbers of affordable units.

***"Richmond VA: Scott's Addition required little public investment"***

…except for tax abatements, publicly funded roads and utilities.

Scott's Addition is developing now because it is the path of least resistance for developers. It is a district that has relied on infrastructure and existing adaptable/reusable buildings that were built by others. The streets already existed; a gift underwritten by our grandparents' taxes. The buildings there are easily adapted into other uses with minimum investment. That is why development is happening there, today, and not in Navy Hill.

The current Navy Hill area has remained unchanged for decades because it is not possible to develop block-by-block.

## Top 50 Metro Areas in the U.S.
arenas and maximum seating capacities

| Metro area: | Arena(s) | Seat Count |
|---|---|---|
| 1. New York / New Jersey | Madison Square Garden | 20,789 |
| | Barclays Center | 19,000 |
| | Prudential Center | 19,500 |
| | Nassau Coliseum | 16,800 |
| 2. Los Angeles / Long Beach | Staples Center | 20,000 |
| | Honda Center | 18,900 |
| | The Forum | 18,000 |
| | Long Beach Arena | 13,609 |
| 3. Chicago | United Center | 23,500 |
| | Allstate Arena | 18,500 |
| 4. Dallas-Fort Worth-Arlington | American Airlines Center | 20,000 |
| 5. Houston, TX | Toyota Center | 19,000 |
| 6. Washington, DC | Capital One Arena | 21,000 |
| 7. Miami, FL | BB&T Center | 22,457 |
| | American Airlines Arena | 20,000 |
| 8. Philadelphia, PA | Wells Fargo Center | 21,600 |
| 9. Atlanta, GA | State Farm Arena | 21,000 |
| 10. Boston, MA | TD Garden | 19,580 |
| 11. Phoenix, AZ | Talking Stick Resort Arena | 19,500 |
| | Gila River Arena | 19,000 |
| 12. San Francisco-Oakland, CA | Oakland Arena | 19,596 |
| | Chase Center | 18,064 |
| 13. Riverside-San Bernardino-Ontario, CA | Toyota Arena | 11,089 |
| 14. Detroit-Warren-Dearborn, MI | Little Caesars Arena | 21,000 |
| 15. Seattle-Tacoma-Bellevue, WA | Tacoma Dome | 23,000 |

| | | |
|---|---|---|
| 16. Minneapolis-St. Paul-Bloomington, MN | Target Center | 20,500 |
| | Xcel Energy Center | 19,355 |
| 17. San Diego, CA | Pechanga Arena | 16,100 |
| 18. Tampa-St. Petersburg-Clearwater, FL | Amalie Arena | 21,817 |
| 19. Denver-Aurora-Lakewood, CO | Pepsi Center | 21,000 |
| 20. St. Louis, MO | Enterprise Center | 22,000 |
| 21. Baltimore, MD | Royal Farms Arena | 14,000 |
| 22. Orlando, FL | Amway Center | 20,000 |
| 23. Charlotte, NC | Spectrum Center | 20,200 |
| | Bojangles Coliseum | 12,500 |
| 24. San Antonio-New Braunfels, TX | AT&T Center | 19,000 |
| 25. Portland, OR | Moda Center | 21,000 |
| 26. Sacramento–Roseville–Folsom, CA | Golden 1 Center | 18,000 |
| 27. Pittsburgh, PA | PPG Paints Arena | 19,578 |
| 28. Las Vegas, NV | T-Mobile Arena | 20,000 |
| | MGM Grand Garden Arena | 17,157 |
| | Mandalay Bay Events Center | 12,000 |
| 29. Cincinnati, OH | US Bank Arena | 17,556 |
| 30. Austin, TX | Moody Center | 15,000 |
| 31. Kansas City, MO | Sprint Center | 19,252 |
| 32. Columbus, OH | Nationwide Arena | 20,000 |
| 33. Cleveland-Elyria, OH | Rocket Mortgage Fieldhouse | 21,200 |
| 34. Indianapolis-Carmel-Anderson, IN | Bankers Life Fieldhouse | 20,000 |
| 35. San Jose, CA | SAP Center at San Jose | 20,000 |
| | Cow Palace | 16,500 |
| 36. Nashville, TN | Bridgestone Arena | 20,000 |

| | | |
|---|---|---|
| 37. Virginia Beach-Norfolk-Newport News, VA | Hampton Coliseum | 13,800 |
| | Norfolk Scope | 13,800 |
| 38. Providence, RI | Dunkin' Donuts Center | 14,000 |
| 39. Milwaukee, WI | Fiserv Forum | 17,500 |
| | UW-Milwaukee Panther Arena | 12,200 |
| 40. Jacksonville, FL | VyStar Veterans Memorial Arena | 16,301 |
| 41. Oklahoma City, OK | Chesapeake Energy Arena | 19,711 |
| | Cox Convention Center | 15,634 |
| 42. Raleigh-Cary, NC | PNC Arena | 21,500 |
| 43. Memphis, TN | FedExForum | 19,500 |
| **44. Richmond, VA** | **New Richmond Arena** | **17,500** |
| 45. Louisville/Jefferson County, KY | KFC Yum! Center | 22,090 |
| | Freedom Hall | 19,169 |
| 46. New Orleans-Metairie, LA | Smoothie King Center | 18,500 |
| 47. Salt Lake City, UT | Vivint Smart Home Arena | 21,000 |
| | Maverik Center | 12,600 |
| 48. Hartford, CT | XL Center | 16,606 |
| 49. Birmingham-Hoover, AL | Legacy Arena | 18,977 |
| 50. Buffalo-Cheektowaga, NY | KeyBank Center | 19,468 |