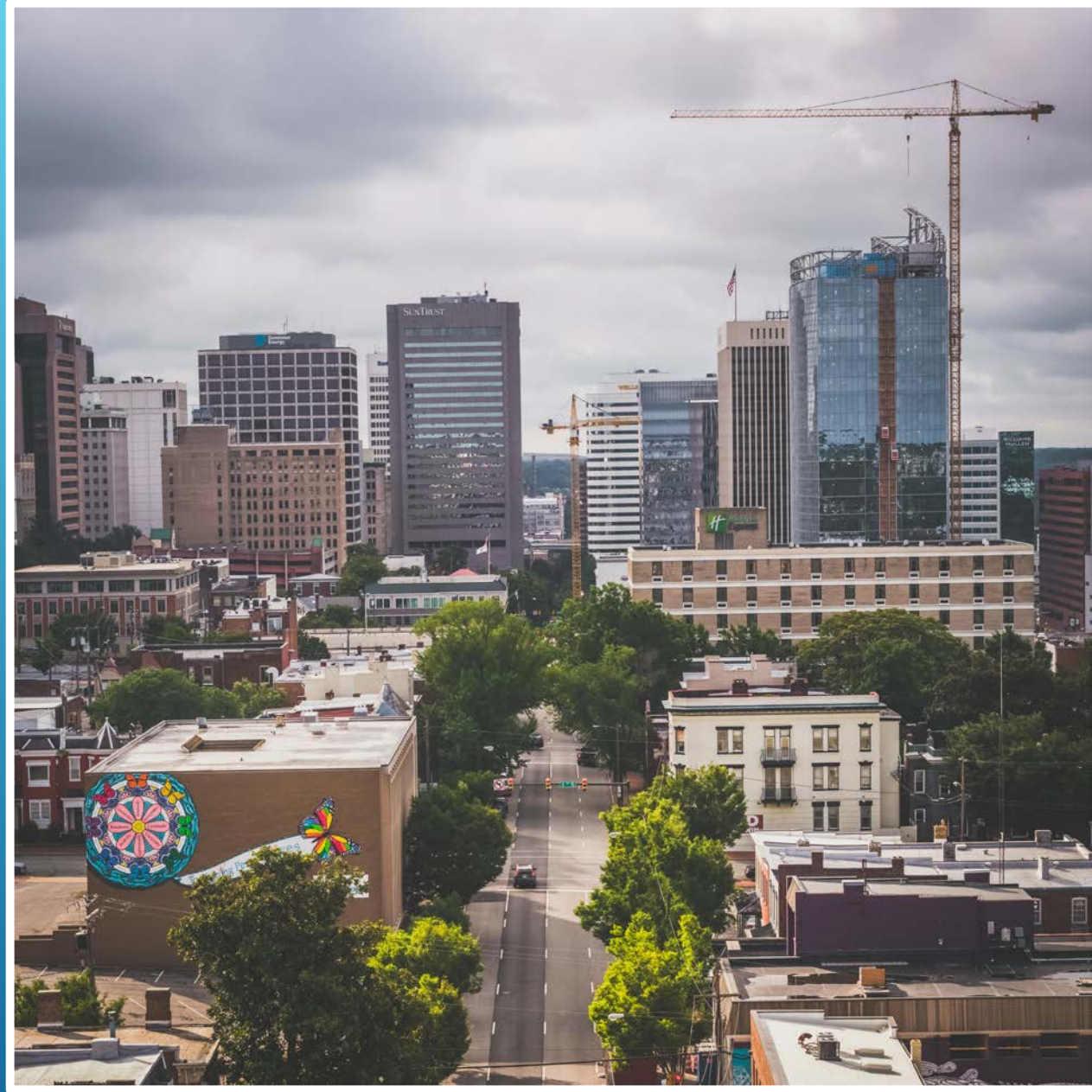


# Navy Hill Commission Risk Matrix and Issues

Pierce Homer, Chair  
November 2, 2019



# Outline

- Defining Key Risk Issues (Slide 3)
- Risks to General Fund Activities (Slide 4)
- Risks to Procurement & Contract Management (Slide 7)
- Key Risk Issues (Slide 15)



# Defining Key Risk Issues

1. Need for, and synergistic value of, arena
2. Impact on City General Fund activities and capital program
3. Impact on school funding
4. Management and Oversight of projects and programs, including public benefits such as affordable housing, tourism and minority procurement

# Risks to General Fund Activities

Citation	Risk	Potential Impact(s)	Likelihood/Severity of Impact(s)	Mitigation
Navy Hill Fund Ordinance Section 1	Baseline Real Estate Values Based on “2020 Proposed Assessment” vs. the Official 2020 Assessment	\$2.1 million annually with escalation over 20-30 years	High/High	
Arena Lease 37.9, Exhibit J to Development Agreement (Schedule), and Throughout	“Float” in Schedule J; Broad Authority for CAO/EDA to Grant Time Extensions; Lesser Deadlines and Penalties for Residential and Commercial Development	Slower Navy Hill Development Projects Reduces Flowdown Revenues to Schools and General Fund		

# Risks to General Fund Activities

Citation	Risk	Potential Impact(s)	Likelihood/Severity of Impact(s)	Mitigation
TIF Tax Projections for Meals, Sales, Lodging, BPOL & Other Sources	Projects in Development Areas Come Online Slower than projected (8 major projects by 2023); Unit Revenues Assumptions	Slower Navy Hill Development Schedule Reduces Flowdown Revenues to Schools and General Fund	High/High	
Cooperation Agreement 4.1 and Navy Hill Fund Ordinance 2(c)	City Failure to Appropriate EDA Grants Affect City Credit Rating	Inability to Fully Address Other Capital Needs of City & Schools		

# Risks to General Fund Activities

Citation	Risk	Potential Impact(s)	Likelihood/Severity of Impact(s)	Mitigation
<b>Cooperation Agreement 3.3</b>	<b>Disposition of TIF Revenues vs. Public Perception of “Surplus”</b>	<b>1. Debt Svc</b> <b>2. Stabilization</b> <b>3. Early Repay</b> <b>3. GF (\$10m to Housing)</b>	<b>High Likelihood in Early Years</b>	<b>Show Full Flow of Funds to schools and General Fund Each Year Using Most Conservative Scenario</b>
<b>July 30 Davenport Fiscal Analysis</b>	<b>Increased Service Costs Attributed to Navy Hill Project</b>	<b>Increased Annual Service Costs Due to Increased Population and Business and Leisure Activities</b>		<b>Include Annual Service Costs in Flow of Funds and Show Net Benefits or Costs</b>

# Risks to Procurement and Contract Management

Citation	Risk	Potential Impact(s)	Likelihood/Severity of Impact(s)	Mitigation
Development Agreement Section 4	Submissions “Deemed Approved” After 7 Days	Failure to Timely Review Designs, Master Plan Amendments, or Other Submissions Could Expose City to Liability or Scope Changes		Extend Review Times; Limit Use of Deemed Approvals
Development Agreement Section 4	Submissions “Deemed Approved” After 7 Days	Over-Committing City Planning, Permitting & Design Resources to Navy Hill Will Further Slow Non-Navy Hill Reviews & Approvals		Extend Review Time <u>AND</u> Include Up Front Navy Hill Review Fees in Ordinance to Support Additional Staff and Outsourcing



# Risks to Procurement and Contract Management

Citation	Risk	Potential Impact(s)	Likelihood/Severity of Impact(s)	Mitigation
Arena Lease 7.3 & 8.2	Landlord (EDA) Monitoring Limited to \$500,000	Lack of Oversight Could Create EDA/City Liabilities and Prevent Timely, Safe Construction		Properly Resource Oversight of \$300 Million on Arena and \$1 Billion Construction Program
Purchase & Sale Agreement Exhibit G; Development Agreement Exhibit F1 & N;	No Room Blocking Requirement in Hotel Use Covenants	Lack of Long Term Covenant for Hotel Room Blocking Requirement Could Diminish Long Term Value of the Hotel project		



# Risks to Procurement and Contract Management

Citation	Risk	Potential Impact(s)	Likelihood/Severity of Impact(s)	Mitigation
Arena Lease Definition of “Construction Contract”	Definition Appears to Require City Approval of Arena Construction Contract	Potential City Flowdown Liability for Construction		
Development Agreement 10.2 (c) i & iii (F) ii	60% of Materials Stored in ESB or MBE Warehouse May Count Towards ESB/MBE Goals	ESB/MBE Employment Goals May Not Be Met		
Cooperative Agreement (Throughout)	Lack of Transparent Public Procurement	Litigation, Protests, Delays		

# Risks to Procurement and Contract Management

Citation	Risk	Potential Impact(s)	Likelihood/Severity of Impact(s)	Mitigation
Arena Lease 7.7.3	Cost Overruns After Financial Close	Lack of Cost Overrun Provisions Could Make City/EDA Liable for Cost Overruns, Changes in Scope, Design Flaws, Changed Conditions, etc.		
Development Agreement (Throughout) and Cooperative Agreement 2.2	<p>Approvals by “City” for Major Issues—Is It Mayor, CAO, EDA, or City Council?</p> <p>Can EDA cede decision authority to CAO?</p>	Potentially Crippling Delays and Litigation Over Future Project and Program Approvals	High/High	Amend Ordinances to Ensure Approval Roles of Mayor, CAO, EDA, and Council Are Clearly Specified in Each Instance (e.g. Council for Master Plan or Budget, CAO for Contract Scope, EDA for Lease, etc.)

# Risks to Procurement and Contract Management

Citation	Risk	Potential Impact(s)	Likelihood/Severity of Impact(s)	Mitigation
<b>Arena Lease 7.1.3.1</b>	<b>Liquidated Damages Assessed Against “Tenant” Which is Defined as “NH District Corporation” in 1<sup>st</sup> Paragraph</b>	<b>Inability to Collect Liquidated Damages Against Navy Hill Corporation or Assignee</b>		
<b>Cooperative Agreement Arena Lease 36</b>	<b>20% Small/Minority Goal for Coliseum vs. 30% Small/Minority Goal for Overall Project</b>	<b>Inability to Achieve 30% Goal</b>		

# Risks to Procurement and Contract Management

Citation	Risk	Potential Impact(s)	Likelihood/Severity of Impact(s)	Mitigation
Arena Lease Exhibit F Section 2.1	Guarantors Not Identified and NH/Tenant Liabilities Capped @ \$2m	Thin Project Equity & Liability Caps Expose City to Substantial Construction & Operational Risk		
Arena Lease Exhibit M	No Explicit Handback Requirements or Standards	Lack of Inspections or Handback Standards Expose City to Potential Liability and Long Term O&M Costs		

# Risks to Procurement and Contract Management

Citation	Risk	Potential Impact(s)	Likelihood/Severity of Impact(s)	Mitigation
Arena Lease Exhibit H Introduction	Exhibit H Establishes 17,500 Seat Arena as “Technical Requirement” With Minimal Documentation of Need or Market Demand	Hunden Identified Technical Standard as Means to Compete w/ Charlottesville, Virginia Beach, DC, Raleigh & Greensboro Arenas. Potential Risk of Low Utilization of New Coliseum		

# Risks to Procurement and Contract Management


Citation	Risk	Potential Impact(s)	Likelihood/Severity of Impact(s)	Mitigation
Cooperative Agreement Arena Lease Sections 10.4, 13.1, 13.6, 14.3, 15.3, 19.1, 24.6, 29.2.1, 29.2.2	Arena Lease Exposes City to Potentially Significant Long Term Operational & Maintenance Liability Due to Liability, Indemnity & Maintenance Expenditure Caps; Transfer Rights of Coliseum to City or Other Public Entity; Default Events	City Could Incur Significant Liabilities & Long Term Maintenance Costs for the Coliseum—With Low Liability Caps (Limited to Insurance & Deductible), Limits on Developer O&M Costs, and City Handback Inspections Not Starting for 20 Years		Conduct Separate Arena Lease Asset Condition Cost Study, Including Forecast of Renewal Work Account Revenues  Cross Default Arena Lease to Other Leases or Agreements

# Defining Key Risk Issues


1. Need for, and synergistic value of, arena
2. Impact on City General Fund activities, including capital program
3. Impact on school funding
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# Key Risk Issues: Arena




The arena lease establishes the 17,500 seat as a technical requirement. What is the market demand and need for a 17,500 seat arena in Richmond? The October 19 NH District response showed only five events needing a space larger than 8,500 seats.



The Hunden report identified average ticket prices of \$48 and \$61 for current and future arena competitors in NC, VA and DC. The October 19 NH District response identified *potential* average ticket prices of \$26 for the Richmond market. How will events at those price points synergize the projected \$51 million in gross 2024 restaurant sales and \$34 million in gross 2024 hotel sales?

# Key Risk Issues: General Fund Activities




The full potential General Fund impacts of the Navy Hill projects are unknown, and the Commission is developing conservative scenarios that include: service impacts to Schools and the City; more realistic development timelines and revenue estimates; and proper City oversight of a \$1 billion construction program.


What is a realistic scenario for development schedules, revenue potential, and directly related service costs?

What would be the impacts of such a scenario on the city capital program?

# Key Risk Issues: Schools




Resolution 2019-R commits 50% of any “surplus revenues from the incremental City revenues that the City receives from the Navy Hill Development” for appropriations for the School Board. What are the estimated annual School Board appropriations from the Navy Hill Fund under a realistic but conservative scenario?



California, Illinois & Maryland have identified negative impacts of tax increment financing on state and local school funding levels. What would be the impact of the Navy Hill project on Virginia education funding to Richmond public schools?



# Key Risk Issues: Management



The Navy Hill program is an energetic concept composed of disparate projects and participants, with differing economic incentives and differing lines of accountability at the project level. The seven day approvals exacerbate these challenges.

Are there better levels and structures for City program and project oversight; including major revisions to the overall risk profile?



# Key Risk Issues: Management



The Navy Hill program offers a number of social benefits, including 280 units of affordable housing, 132,000 room nights at the new hotel, and \$300 million towards minority procurement goals. Are there adequate metrics, incentives and sanctions to ensure achievement of the affordable housing, tourism and minority procurement goals?



# Defining Key Risk Issues

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