AGENDA

Meeting Type:	SPECIAL
Date:	07/06/1995
AAU LEASE PROPOSAL	

City of Charlotte, City Clerk's Office

CHARLOTTE

Mayor Richard Vinroot — *Mayor Pro Tem Patrick McCrory*

Charles Baker
Stan Campbell
Patrick D Cannon
Mike Jackson
Nasif Rashad Majeed
Hoyle H Martin
Don D Reid
Ella Butler Scarborough
Sara Spencer
Lynn M Wheeler

Council Agenda

SPECIAL CITY COUNCIL MEETING
Thursday, July 6, 1995

5:00 p.m. — **Formal Business Meeting/Meeting Chamber**

- **Invocation**
- **Pledge of Allegiance**

POLICY

Amateur Athletic Union (AAU) Lease Proposal for the Old Convention Center

Since June 26, the City Council Economic Development Committee has met twice and will meet again at 4:00 p.m. today to conclude discussion and develop a recommendation to Council regarding the AAU Lease Proposal. The Request for Council Action will be presented at the Council meeting.

CHARLOTTE
SISTER CITIES COMMITTEE

The mission of Charlotte Sister Cities is to promote international cooperation understanding and development through a variety of dynamic exchanges with specific cities with whom Charlotte maintains an active formalized relationship

AREQUIPA
Peru
1962

KREFELD
Germany
1985

BAODING
People's Republic
of China
1987

VORONEZH
Russia
1991

LIMOGES
France
1992

WROCLAW
Poland
1993

KUMASI
Ghana
1995

July 6, 1995

This evening we have a special group of interested observers from Charlotte's Polish Sister City, Wroclaw (VROTS-WAF). I would like for our visitors to stand up as I tell you about them.....These five young Poles, each of whom speaks fluent English, are with the City of Charlotte this week following 6 months of study at Michigan Technological University in Houghton, Michigan. Selected competitively from applicants of Wroclaw Technical University to participate in this USIA funded experience, they have participated in extensive study of City Administration, thus becoming the first generation of Poles to examine professional city leadership. As their Sister City, Charlotte was asked to plan a 5-day internship of observation and exploration based on each ones specific interest. Today through Tuesday they will be with various departments as they learn about the services of Charlotte's city government . We wish them the best, and we look forward to working with them as they become leaders in city administration back in Poland.

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LEASE PROPOSAL: THE AMATEUR ATHLETIC UNION OF THE UNITED STATES, INC. -- THE CITY OF CHARLOTTE

The following is an outline of the principal terms of a proposed lease of the Old Charlotte Convention Center by the City of Charlotte, as lessor, to the Amateur Athletic Union of the United States, Inc., as lessee. The lease proposal is based upon discussions with the AAU representatives and addresses various issues and concerns raised by members of Council. While the following has not been approved in full by AAU representatives it is believed to be in a form that will generally be acceptable to the AAU.

LESSOR: The City of Charlotte (the "City").

LESSEE: The Amateur Athletic Union of the United States, Inc., a nonprofit corporation (the "AAU").

LEASED PREMISES: The land, improvements (including building and parking facilities), fixtures and equipment commonly known as the Old Charlotte Convention Center located on the east side of South College Street between Fourth Street and Trade Street, Charlotte, North Carolina (the "Leased Premises").

USE OF THE PREMISES: The use of the Leased Premises by the AAU and any subtenants shall be in conformity with applicable zoning rules and regulations. The Leased Premises will be used for the executive offices of the AAU and serve as the AAU's national sports complex. In order to induce the City to enter into the Lease Agreement the AAU will exert its reasonable best efforts to maintain AAU national and regional events on a regular and recurring basis in the national sports center or within the Charlotte metropolitan area and an appropriate representation to this effect will be incorporated into the Lease Agreement.

CONDITION OF LEASED PREMISES AT COMMENCEMENT OF TERM: All mechanical equipment and systems and structural components shall be in good

working order and in a condition reasonably satisfactory to the AAU.

ENVIRONMENTAL: The City will be required to identify any environmental hazards (as, for example, asbestos) prior to the AAU accepting the Leased Premises. The AAU will be responsible for environmental matters arising out of its use of the premises only.

BASE LEASE TERM: Five (5) years (the "Initial Term").

OPTIONS TO EXTEND: Two (2) consecutive 2-year extension options and one (1) 1-year extension option (total option term five (5) years) exercisable by AAU on not less than 120 days' prior written notice to the City (the "Option Term").

BASE RENT:

Year One	-- $275,000.
Year Two	-- $300,000.
Year Three	-- $325,000.
Year Four	-- $350,000.
Year Five	-- $350,000.

Years Six-Ten (to the extent applicable). The rent for each year during any Option Term will be $350,000 adjusted by the percentage increase in the Consumer Price Index as of the first day of each year during the Option Term as compared to the first day of the fifth (5th) year of the Base Term (but in no event will the rent be reduced).

SECURITY DEPOSIT: None.

ADDITIONAL RENT: The AAU will be responsible for all ad valorem taxes and assessments, insurance premiums, operating costs and expenses (including all utilities, parking management and building management) and maintenance and repairs of the Leased Premises.

HVAC MAINTENANCE AND REPAIR: The AAU will be required to maintain at its expense a service contract with a reputable HVAC service provider reasonably acceptable to the City. The AAU will be responsible for all normal and routine maintenance (including

preventive maintenance) and repairs to the HVAC system. In the event that any components of the HVAC system require replacement the AAU will be responsible for the first $25,000 of cost with all in excess thereof being the responsibility of the City.

ROOF MAINTENANCE AND REPAIR:

The AAU will be required to maintain at its expense a service maintenance contract with respect to the Leased Premises' roof with a service provider reasonably acceptable to the City. The AAU will be responsible for all maintenance and repairs to the roof up to a maximum of $10,000 annually with all costs in excess of $10,000 to be borne by the City.

GENERAL MAINTENANCE:

The AAU will be required to maintain the exterior of the Leased Premises including adjoining sidewalks and the parking garage in a clean condition free of debris consistent with maintenance and cleanliness standards of a first-class office and parking facility. The AAU shall similarly be required to maintain the interior of the Leased Premises in a first-class condition and at a maintenance level generally consistent with that of other properties owned and/or operated by the City or the Auditorium-Coliseum/Convention Center Authority (the "Authority").

UPFITTING:

The AAU will be responsible for all costs and expenses associated with upfitting of the Leased Premises. All upfitting shall be in conformity with applicable zoning and building codes and regulations. In order to ensure the integrity of the Leased Premises the plans and specifications for all upfitting work and the AAU's general contractor and primary subcontractors shall be subject to the reasonable approval of the City. The upfitting will generally consist of construction or installation of interior offices, retail shops on the South

College Street level with street access, six (6) basketball courts with seating facilities, locker facilities, storage areas, and other athletic facilities and equipment. All improvements and upfitting to the Leased Premises will become the property of the City at the end of the Lease Term. The estimated cost of the upfitting exceeds $1.5 million.

SUBLEASING:

The AAU shall not be permitted to sublease or assign its interest in the Leased Premises to any other person, firm or corporation (either directly or indirectly) without the express prior written consent of the City which such consent may be withheld by the City for any reason in its sole and exclusive discretion; provided, however, the AAU will be permitted to sublease up to a maximum of 15,000 square feet to retail shops and a food service operator provided that such subtenants shall be consistent with and complement the AAU's national sports complex. All subtenants shall be responsible for complying with applicable zoning and building codes, rules and regulations respecting the subtenants' premises. Upfitting by subtenants shall be subject to the reasonable approval of the City.

ALTERATIONS:

The AAU shall not be permitted to make any structural alterations to the Leased Premises or alterations to the facade without the express prior written consent of the City.

PARKING: LIMITED REVENUE SHARING:

The Leased Premises includes the parking facilities located under the Charlotte Convention Center. The AAU shall assume the Authority's obligation with respect to the existing parking management contract. Throughout the Lease Term the rates charged by the AAU for parking shall be competitive with other parking facilities within the immediate area and any reduction in rates, or the granting of complimentary parking shall be subject to the City's prior approval. The City

shall be entitled to share in parking revenues commencing in the second Lease Year on the following basis: the gross parking revenues for the first Lease Year shall be determined: to the extent that parking revenues in any subsequent lease year exceed the revenue for the base year the excess shall be allocated fifty percent (50%) to the City and fifty percent (50%) to the AAU.

OVERSTREET WALKWAY: The AAU shall keep the existing overstreet walkway between the Leased Premises and the Radisson Hotel open during normal business hours and shall be responsible for cleaning and routine maintenance and repairs to the same.

INSURANCE: The AAU shall be required to maintain (i) fire and extended coverage insurance on the Leased Premises in an amount equal to 100% of the full replacement cost thereof or such other amount as shall be approved by the City, (ii) an all risk property policy respecting the AAU's property located within the Leased Premises, (iii) workmen's compensation insurance as required by law, (iv) boiler and plate glass insurance, (v) business interruption insurance, and (iv) commercial general liability and property damage insurance providing combined single limits for bodily injury, death and property damage of not less than $10,000,000 per occurrence. The City shall be listed as an additional named insured in all such policies. The cost and expense of all such insurance shall be borne by the AAU. The insurance shall be written by insurance companies duly licensed in the State of North Carolina and carrying a Best's rating of no less than A-VII. Deductibles shall be at a level consistent with operations of the type proposed by the AAU and as shall reasonably be approved by the City. All insurance policies shall require thirty (30) days' notice to City prior to cancellation.

INDEMNIFICATION: The Lease Agreement will provide that the AAU will indemnify and hold harmless the

City, the Authority, and their respective agents and employees from and against all liability, cost or expense (including reasonable attorneys' fees) arising out of or relating to the AAU's use and operation of the Leased Premises.

SECURITY: The AAU will be responsible for maintaining adequate security within the parking garage and at all events held at the Leased Premises.

EVENTS OF DEFAULT: The Lease Agreement will contain the usual and customary events of default in a commercial lease of this type including failure to pay the rent as and when due; failure to maintain the required insurance; failure to maintain the Leased Premises in accordance with the terms of the Lease; bankruptcy or insolvency; and an unauthorized assignment or subleasing of all or any portion of the Leased Premises.

AFFIRMATIVE COVENANTS: The Lease will contain various affirmative covenants by the AAU including conducting its business and maintaining its existence in accordance with applicable law; maintaining all licenses and permits as required; maintaining the required insurance coverage; maintaining and operating the Leased Premises; providing to the City at Lease inception and no less frequently than annually a financial statement of the AAU duly certified as true and correct by the President or Chief Financial Officer thereof; and continually maintaining operations within the Leased Premises (i.e., the AAU would be prohibited from abandoning the Leased Premises or "going dark").

MORTGAGE: The AAU will not be permitted to pledge, mortgage or otherwise encumber its leasehold estate.

SIGNAGE: The Leased Premises will be renamed the "AAU National Sports Center" or such other name as the AAU shall adopt subject to the approval of the City. The AAU shall be permitted to install appropriate

signage on the Leased Premises displaying the name of the complex, consistent with applicable sign regulations but otherwise subject to the reasonable approval of the City. Subtenants located within the premises shall not be permitted to have external signage unless authorized under the sign ordinance and then only if approved by the City.

MAJOR STRUCTURAL REPAIRS:

Other than as otherwise provided with respect to repairs and replacements involving the HVAC system and the roof, the City will be responsible for all major structural repairs and replacements to the Leased Premises as necessary during the full Lease Term; provided, however, in the event that any replacement or repairs to the HVAC system, roof or other structural portions of the property shall entail an expenditure of $250,000 or more and there are less than eighteen (18) months remaining on the Lease (unless the AAU exercises any available options) the City may, at its election, elect to forego making such repairs and terminate the Lease.

There are a number of issues that have been raised and that were discussed with the AAU as follows:

- Buy-Out Provision. It has been suggested that it would be in the City's best interest to incorporate into the Lease a provision permitting the City to "buy-out" any unexpired Lease Term in order that the City would be in a better position to ultimately sell the Leased Premises to a third party developer. The AAU is unwilling to agree to a buy-out provision. The AAU will be spending in excess of $1.5 million in upfitting the Leased Premises and will be heavily involved in planning and scheduling of events at the National Sports Center. A buy-out provision would make it impossible for the AAU to handle scheduling of its many events in an orderly fashion particularly since many of these events are scheduled several years in advance. It has been concluded that if a developer desires to purchase the Leased Premises for development purposes it will be in a better position to negotiate a buy-out with the AAU as tenant than the City.

- Lease Term. The AAU desires a Lease Term of ten (10) years. It has been suggested that a 5-year Initial Term and three Option Terms (two 2-year options and one 1-year option) represents a reasonable compromise. Alternatively, a straight 10-year lease with no options could be granted or a 5-year lease with five 1-year options.

- Maintenance Costs and Expenses of HVAC, Roof and Other Structural Components. While the various mechanical systems and structural components of the building including the roof are believed to be in sound condition it is nevertheless recognized that major replacements could involve significant sums. The City has addressed this point with the AAU and as a compromise the City is suggesting that the AAU bear the HVAC replacement costs up to $25,000 annually and roof maintenance costs up to $10,000 annually with all in excess thereof being borne by the City. The AAU will further be required to maintain an appropriate service contract on the major mechanical components of the building and to properly maintain them at all times. Additionally, the City will attempt to incorporate a clause limiting the City's liability for HVAC, roof or structural repairs involving an expenditure in excess of $250,000 when less than eighteen (18) months remain on the Lease Term. It is unknown whether this limitation will be acceptable to the AAU. The risk sharing arrangement outlined herein is believed to be acceptable to the AAU and represent a reasonable compromise.

- Option to Purchase. No option to purchase is being given.

- Revenue Sharing Arrangement on Subleases. The AAU will lease space within the Leased Premises to third parties for operation of retail shops. The AAU, as a non-profit organization, will be depending upon the revenues from subtenants to support its operations including its required Lease payments to the City. In final negotiations with the AAU the City will request copies of their pro forma projections in order to evaluate the projected income from subtenants. Depending on the magnitude of the income projected the City will seek to secure some revenue sharing to the extent revenues exceed projections.

CITY OF CHARLOTTE

EVALUATION OF CONVENTION CENTER OPTIONS

PRESENTED TO CITY COUNCIL

JULY 6, 1995

MICHAEL A ROWLAND
COOPERS & LYBRAND L L P
CHARLOTTE NC

City of Charlotte

EVALUATION OF CONVENTION CENTER OPTIONS

Summary

		PV
Scenario 1	Sale In Year 1 @ $10,850,000	$14,356,743
Scenario 2:	Sale In Year 2 @ $8,000,000	$10,449,835
Scenario 3.	Proposed Lease Option	$9,416,561

OTHER CONSIDERATIONS

Investment Value of Cash (Scenario 1)	Up To $4.8 Million
Estimated Economic Benefit (Scenario 3)	$14,386,972

NOTE

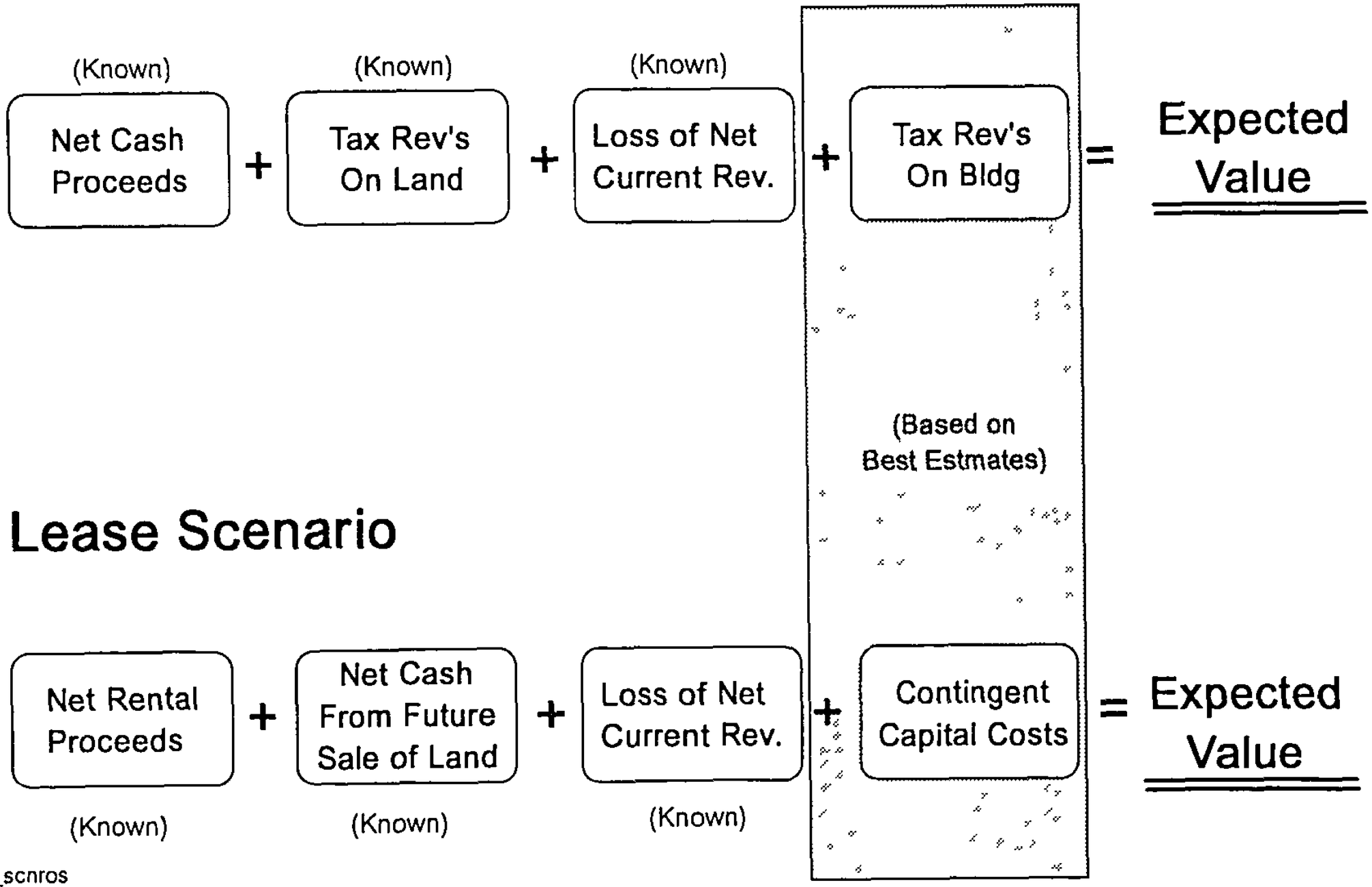
* Benefits accruing to Charlotte/Mecklenburg Metropolitan Area

City of Charlotte

Evaluation of Convention Center Options

Components of Analysis

Sale Scenarios



Lease Scenario

7/5/95, cc_scnros

City of Charlotte

Evaluation of Convention Center Options

Additional Considerations

Sale Scenarios

Expected Value + Additional Benefit From Use of Cash + Economic Benefit of Building (Unknown at This Time)

Avoid Interest On Future Borrowings,
Earn Interest on Invested Funds;
Avoid Future Tax Increases;
Tax Rebates; . .

Lease Scenario

Expected Value + Additional Benefit From Use of Cash + Economic Benefit of AAU (Based on Best Estmates)

(3)

City of Charlotte
EVALUATION OF CONVENTION CENTER OPTIONS

Scenario 1

Year	Sale Value	Tax Revenue Land	New Building Constructed	Tax Revenue Building	Loss of Current Net Revenue	PV SALE VALUE	PV TAX REV LAND	PV TAX REV BLDG	PV LOST REVENUE	TOTAL PV
1995						$10 850 000	$953 760	$2 552 983		$14,356,743
1996	$10 850 000	$130 200								
1997		$130 200								
1998		$130 200								
1999		$130 200								
2000		$130 200	$55 000 000	$660 000						
2001		$130 200		$660 000						
2002		$130 200		$660 000						
2003		$130 200		$660 000						
2004		$130 200		$660 000						
2005		$130 200		$660 000						

ASSUMPTIONS

1 Sell building in year 1
2 Net sale price IIn 1996 $10 850 000 (per 1/20/95 Appraisal)
4 Discount rate (All Cash Flows) 6 10%
5 Building constructed in 2000 $55 000 000
6 Tax Rate = City & County combined = $1 20/$100 of appraised value
- No appreciation or tax increases after year 1

7 Net revenue derived from building in its current state is approximately zero based on figures provided by S Kemp Executive Director of Coliseum Authority

City of Charlotte
EVALUATION OF CONVENTION CENTER OPTIONS

Scenario 2

Year	Sale Value	Tax Revenue Land	New Building Constructed	Tax Revenue Building	Loss of Current Net Revenue	PV SALE VALUE	PV TAX REV LAND	PV TAX REV BLDG	PV LOST REVENUE	TOTAL PV
1995						$7 540 057	$847 666	$2 062 113		$10,449,835
1996										
1997	$8 000 000	$132 804								
1998		$132 804								
1999		$132 804								
2000		$132 804								
2001		$132 804	$55 000 000	$660 000						
2002		$132 804		$660 000						
2003		$132 804		$660 000						
2004		$132 804		$660 000						
2005		$132 804		$660 000						

ASSUMPTIONS

1 Sell building in year 2
2 Net sale price In 1997 $8 000 000 (Worse case estimate)
4 Discount rate (All Cash Flows) 6 10%
5 Building constructed in 2001 $55 000 000
6 Tax Rate = City & County combined = $1 20/$100 of appraised value
No appreciation or tax increases after year 1
7 Net revenue derived from building in its current state is approximately zero based on figures provided by S Kemp Executive Director of Coliseum Authority

City of Charlotte
EVALUATION OF CONVENTION CENTER OPTIONS

Scenario 3

YEAR	ANNUAL RENT	LAND VALUE	Loss of Current Net Revenue	Contingency For Capital Repairs	PV ANNUAL RENT	PV LAND VALUE	PV LOST REVENUE	PV CONTINGENCIES	TOTAL PV
1995		$10 850 000			$2 526 104	$7 316 066		($425 608)	$9 416 561
1996	$275 000			($50 000)					
1997	$300 000								
1998	$325 000			($30 000)					
1999	$350 000								
2000	$350 000			($450 000)					
2001	$360 500								
2002	$371 315								
2003	$382 454			($30 000)					
2004	$393 928								
2005	$405 746	$13 226 089							

ASSUMPTIONS

1 10 year lease as proposed by Charlotte Sports Commission
2 Current net cash value of land $10 850 000 (per 1/20/95 Appraisal)
3 Land Appreciation Rate 2 00% per year
4 Discount rate 6 10%
5 Current net revenue = (Net proceeds from parking) (O&M costs) Current estimates
6 Contingency figures are best estimates presented to Economic Development Committee by B Aldridge on 7 5-95 for Total roof repair = $450 000 HVAC component replacement = $30 000 in years 3 & 8 Parapet wall replacement = $50 000
7 Net revenue derived from building in its current state is approximately zero based on figures provided by S Kemp Executive Director of Coliseum Authority

City of Charlotte
EVALUATION OF CONVENTION CENTER OPTIONS

Additional Benefits From Sale Of Property

CASE 1 Avoided Interest

Year	Outstanding Principal Beginning of Year	Annual Payments End of Year	Interest Costs For The Year	Principal Reduction	PV AVOIDED COSTS
1995					[$3,127,949]
1996	$10 850 000	$1 481 160	$661 850	$819 310	
1997	$10 030 690	$1 481 160	$611 872	$869 288	
1998	$9 161 402	$1 481 160	$558 846	$922 314	
1999	$8 239 088	$1 481 160	$502 584	$978 576	
2000	$7 260 512	$1 481 160	$442 891	$1 038 269	
2001	$6 222 243	$1 481 160	$379 557	$1 101 603	
2002	$5 120 640	$1 481 160	$312 359	$1 168 801	
2003	$3 951 839	$1 481 160	$241 062	$1 240 098	
2004	$2 711 741	$1 481 160	$165 416	$1 315 744	
2005	$1 395 997	$1 481 160	$85 156	$1 396 004	

CASE 2 Interest On Invested Funds

Year	Principal	Interest (6 10%)	PV INTEREST
1995			[$4,848,278]
1996	$10 850 000	$661 850	
1997	$10 850 000	$661 850	
1998	$10 850 000	$661 850	
1999	$10 850 000	$661 850	
2000	$10 850 000	$661 850	
2001	$10 850 000	$661 850	
2002	$10 850 000	$661 850	
2003	$10 850 000	$661 850	
2004	$10 850 000	$661 850	
2005	$10 850 000	$661 850	

ASSUMPTIONS

1 Sell building in year 1
2 Net sale price lin 1996 $10 850 000 (per 1/20/95 Appraisal)
4 Discount rate (All Cash Flows) 6 10%
5 Interest rate 6 10%
6 Building constructed in 2000 $55 000 000
7 Tax Rate = City & County combined = $1 20/$100 of appraised value
No appreciation after year 1
8 Avoided Costs = Benefit of avoided borrowing based on 10 year 6 1% simple interest G O Bonds with payments @ year end

City of Charlotte
EVALUATION OF CONVENTION CENTER OPTIONS

Estimated Economic Benefit
(Based on Sports Commission Estimates)

Year	Economic Benefit	PV
1995		$14,386,972
1996	$1,964,000	
1997	$1,964,000	
1998	$1,964,000	
1999	$1,964,000	
2000	$1,964,000	
2001	$1,964,000	
2002	$1,964,000	
2003	$1,964,000	
2004	$1,964,000	
2005	$1,964,000	

NOTE
Discount rate (All Cash Flows) 6 10%