

**OWNERSHIP / OPERATING FACTS:**

- Spectrum Arena is owned by the City of Charlotte and is leased and operated by Hornets Sports and Entertainment (HSE).
- The original operating agreement was executed in 2003 with the arena opening in 2005 under the original team ownership. HSE assumed the operating agreement in 2010. The lease expires at the end of the 2029-2030 NBA season.
- The arena is 17 years old landing in the middle of the pack in age for NBA arenas.
- The Charlotte Regional Visitors Authority manages the back of house operations for Spectrum Arena and is paid by HSE.

**ECONOMIC IMPACT FACTS:**

- The city commissioned a recent market assessment of the Charlotte Hornets and Spectrum Center in order to quantify the building's economic impact on Charlotte
- \$376 million/year – Annual economic impact for the Charlotte Metropolitan Statistical Area (MSA)
- 3,232 – Total number of permanent jobs (direct, indirect and induced) supported by the economic activity of the Hornets basketball and Spectrum Center events for Charlotte MSA.

**2003/2013 OPERATING AGREEMENT FACTS:**

- Per the operating agreement, the City of Charlotte is obligated to make, in a timely fashion, and pay for capital repairs that include items such as changes or improvements required by the NBA, replacement of scoreboard or digital equipment, repairs or items due to unsatisfactory work done during construction, or replacement of carpet once every 10 years.
- Under the same agreement, the City of Charlotte is obligated for capital improvements that have been additions added into more than fifty percent of NBA arenas. These improvements request began the 7<sup>th</sup> year after the commencement date.
- The Operating Agreement was amended in 2013 with the City of Charlotte contributing \$27,500,000 in capital improvements.
- This amendment allowed for another assessment of capital improvement needs required to begin in 2019 with work starting no earlier than September of 2021.

**NEW PROPOSED DEAL FACTS:**

- The scope of the renovations required were determined and agreed upon by numerous independent consultants hired by both HSE and the city
- Arena Renovations:
  - Contractually Obligated Per Preexisting Operating Agreement: \$173 million
  - Additional Arena Renovations: \$42 million
  - The funding source (Tourism Fund) is derived from rental car and hotel sales taxes and by law is required to be spent on projects to support the City's tourism economy
  - Project is executed over 4 years to balance impact to Tourism Fund

- Performance Enhancement Center (PEC):
  - \$60 million
  - Funded by new revenues generated by additional naming rights and new revenue opportunities – not from tourism taxes
- The redevelopment of the Charlotte Transit Center (CTC) with the inclusion the PEC creates the opportunity for a district and the excitement and entertainment that occurs inside the arena to spill out onto Brevard Street for the community to enjoy.
- CTC is a transit facility first that joins a bus facility with the blue line and gold lines. It also incorporates retail that will make a natural connection to the retail and plaza at Spectrum.
- City costs are capped at \$215M for Spectrum Center and \$60M for PEC. The Hornets are responsible for any cost overruns.
- Funding for capital maintenance, repairs, improvements

#### **HSE COMMITMENT -- INCREASED FINANCIAL COMMITMENT**

- Extending HSE operating lease agreement of Spectrum Center with the City for an additional 15 years, running through June 30, 2045
- HSE to pay increased rent at Spectrum Center
  - HSE to pay a total of \$32 million in rent through 2045
  - \$500K/year for 4 years and \$2 million/year for 15 years
- HSE to contribute additional funding for Capital Fund Account
  - In the 2013 agreement, HSE agreed to increase their annual contribution from \$500,000 to \$1.1M. However, this was set to expire in 2024.
  - HSE has agreed to continue the annual \$1.1M capital fund contribution through 2045
- HSE will continue to pay all operating expenses at Spectrum Center
  - Including all back-of-house costs reimbursed to CRVA
- HSE commits to cover cost overruns above the \$215 million at Arena
- HSE to pay for any cost overruns above \$60 million for PEC
- Hornets continue to have responsibility for all operating expenses PEC
- HSE to relieve City's obligation to contribute to Capital Fund Account for a 3-year period totaling \$3.3 million which is contributed to the renovation.

#### **OPTIONS UNDER CONSIDERATION**

- ONLY OBLIGATED - Choose to perform only the work that is contractually obligated (\$173M) with no lease extension.
  - No lease extension would allow HSE to come back each year to request capital improvements to the arena until the end of their lease in 2030 and through the team's option to extend for 5 more years.
  - Most likely by 2026 there is a request for a new arena to extend the lease beyond 2030 and retain HSE.

- If the Hornets were to leave after 2030, the city would have to find another operator, operate themselves (approx. \$15+MM/year), or hold the building until the debt from the \$173 million was paid off in 2045 or later, depending on when the debt was issued.
- LEASE EXTENSION - Choose to perform the work that is contractually obligated (\$173M) with additional improvements (\$42M) from tourism funds. Fund \$60M for a new Performance Enhancement Center from new revenue sources of naming rights. Extend HSE lease to 2045.
  - HSE would make new rent payments of approximately \$32M
  - Lease extension better aligns the with the useful life of the facility and allows use of the building while debt is serviced
  - The PEC is a new revenue source that reduces impact from tourism funds

#### WHAT DOES THIS MEAN FOR OTHERS?

- Within the Tourism Funds, Finance has built additional capacity for other projects, and while this does impact the fund for the first several years, it does not preclude other projects from happening.
- With respect to Bank of America Stadium, the Convention Center fund, which is separate from the Tourism Fund, is utilized for renovations for the stadium and the Convention Center Fund is not impacted by the HSE project.
- We continue to work with TSE on a regular basis regarding a number of projects around the city. It was recently reported that TSE is conducting an assessment of the stadium. As we continue our work with TSE, we stand ready to work with them on improvements to or around the Bank of America stadium.
- We appreciate what TSE has brought to Charlotte from MLS to concerts and the increased activation of Bank of America Stadium, which has brought additional economic benefit to the city and particularly uptown.