August 22, 2017

PADP (Pensacola Area Development Partners) Letter of Intent (LOI) Review and comments
By Julian

POINTS OF INTEREST:

- The original proposal was for a Sports Facility and this LOI includes an Arena/Convention Center and Hotel plus two parking decks taking us from a 35,000-sq. foot facility originally proposed with surface parking to a 100,000-sq. foot field house plus a 6,500-seat arena/convention center (with no building size identified) and a 120 room (minimum) hotel described as a 'Key part of phase one' because of the lease payments from the hotel are designed to cover operating losses of the entire development.

- The waterfall of income leading to a 50/50 profit share to the county is <u>after</u> all expenses and a <u>Preferred Return</u> to the PADP/Hunt.

- The Shortfall Guarantee by the county is after an annual projection of income and expenses that can be 'adjusted bi-annually', effectively making this a non-guaranteed lease payment, or in other words a guaranteed lease payment with a shortfall provision projected annually based and adjusted every six months. In my opinion, this becomes the guarantee for debt and equity payments, (after the hotel fixed lease payment) ultimately pushing the underwriting of the full faith and competence of the county. Good for equity raising but not the deal we were brought in the beginning.

- There has been no study to quantify need for more hotel rooms or for the Arena/Convention facility.

- Guiding philosophy is based on a Gatorade tem basketball facility and/or Professional Hockey League team neither of which have been established and proven as long term income source.

- 99-year lease for the land (at $100 a year), yet a 30-year lease projection for the facilities and an undetermined lease term for the hotel. They need to show what happens after 30 years.

- There are no financial models shown, yet this LOI is a commitment to start development with the county footing the development bill if the project is not successfully financed.

- 'One Source' of funding (debt equity and equity capital) is a publically traded fund managed by Hunt, but all efforts are best efforts with no guarantee other than Hunt's 100% success rate… which is no small thing. However, with the backup of the county for shortfalls, it makes for an easy go in the capital markets.

- There will be no obligation for a public bid process for the hotel project. This is counter to what we were told at the DMO. PADP has full control of this process. (BTW, I am not at all interested in this super risky hotel project.) The terms of the lease payments from the hotel are intended to cover all operating costs of the Arena/Convention Center and Field House not covered by income generated by the facilities. We need to see that modeled out to determine feasibility of the hotel, since this has been established as 'a key part of phase one' and will determine the bi-annually adjusted shortfall guarantees from the county.

- Given the closed bid process and the complete and unilateral authority of PADP to determine who the lessee will be for the hotel, anyone associated with PADP should abstain from voting on DMO's position on this project to avoid a conflict of interest on the part of the DMO to the county.

- Project cost is estimated to be $65 million plus the cost of the hotel at $30 million ($250,000 per key at 120 keys and no land cost for a three-star limited service hotel) for a total of $100 million. (The math doesn't work for me if you use a conservative $15,000 per parking space for 1,600 spaces equaling $24 million. That leaves $41 million for soft cost and hard cost for a 100,000 sq. ft. sports facility and the Arena/Convention facility of undetermined size.

- Hunt will create a shell company (single asset entity) referred to as Project Co, to sign all agreements with the county. The value of this company will be the value of the lease with the county, which will be guaranteed by the 'fixed lease' with the hotel, which will be further guaranteed by the annual 'Shortfall' payment (adjusted bi-annually) by the county.

- All operating risk is assumed by PADP (another shell company). This is a technical detail but of no consequence due to the ultimate guarantee of the county for shortfalls.

- 'Property tax abatement will be available', which is of no consequence either other than it skews the Shortfall guarantee in favor of PADP.

- 50/50 profit share with the county is after 'a preferred equity return' to PADP, 'to be negotiated'. This is another point that should be sorted out before development costs are incurred by the county.

- Section F commits the County to fund all development costs at the signing of the LOI. The county will be committed to reimbursed at the closing of the financing or if the county fails to 'diligently proceed' for a period of greater than 45 days.

- The county owns the work product of the development if it pays all bills accumulated by PADP.

SUMMARY:

While it was not my intention to spend a day of my travels abroad on this issue, I promised to read the LOI in detail. The notes above are my understanding of how the agreement reads. I never thought I would be taking an independent position on this, but without the DMO making any definitive advance statements, as we have in every other vote by the BoCC, it seemed that I should weigh in.

In its totality, the agreement is one that I would propose, if I were in the position of Hunt. The risk as it is structured in the LOI, is low for Hunt and almost risk free for the PADP. It is clearly designed for cities and public facilities that have a dire need to reestablish their infrastructure and bring life back into a derelict area or simply an area that is looking for the expertise of a collection of companies that have been successful in public private facilities.

What was initially attractive to me in this project, was the hope to broaden our market and attract more sports tourism especially for areas other than the beach hotels, knowing as we all know that compression benefits all.

Arenas and Convention Centers and Convention Hotels are not money makers, especially for cities of our size and scale. Not being a money maker is a relative term. Highly subsidized is another word for not being a money maker.

Since 98% of all Convention Centers are not profitable (see the most recent legacy of the Okaloosa Convention facility), the concept is that the community will benefit in quality of life and a spin off to the tax base will be created in second hand revenue through related businesses, like hotels, retail, and restaurants. While I do believe that government has a responsibility to subsidize public/private ventures, we need to be focused on where the biggest benefit is for our size community and its natural attributes.

We have strayed away from this original intent through varied intentions and I would love to see us focus on something that would work. This project is simply too big and the likelihood of a city and county of our size supplementing the Shortfall combined with the Lease Payment to the County is to great. There is a precedent on top of a precedent on top of another precedent in order to make this a viable subsidized project and with our conservative governments and tight budgets, I feel the likelihood of a successful outcome is small if not impossible under the current LOI and scope.

If we were to come back to our original intent and propose a reasonable sized Sports Facility, even with the huge financial commitment in our competitive set from Foley and Panama City to this sports market, I feel we could do something for our county that would make us all proud and not be saddled with version 2.0 of the existing civic center for decades to come.

Sorry I am not there to engage in the discussions. Any offense taken in my emails or this report is not intended to do anything other than to look at the greater good.

Julian