

Back-Up Information: City-Owned Downtown Arena Renovation

This item provides additional information related to the corresponding action item regarding the renovation for the City-owned downtown arena.

Summary

In 1989 the City of Phoenix partnered with the Phoenix Suns on a major downtown revitalization project by developing a new multipurpose arena. The City earmarked a 1-percent hotel excise tax and a 2-percent rental car excise tax to create a Sports Facilities Fund that would pay the City's share of what is now known as Talking Stick Resort Arena (the "Arena"). These taxes are primarily paid by out-of-town visitors to Phoenix.

Economic Impact

After a long period of decline, economic vibrancy returned to downtown Phoenix as the new Arena brought life back to the urban core when the facility opened in 1992. Within one year, two dozen new restaurants and retail outlets opened downtown. When the Arena agreement was reached in 1989, the downtown core generated \$57 million in business activity among hotels, restaurants, bars and retail, resulting in \$1.1 million in City tax revenue. These sectors are directly impacted by downtown activity levels, especially during Arena events.

By 1998, after five full years of arena operations, economic activity increased in those same downtown sectors, producing \$179 million in sales and \$3.3 million in direct City revenue; downtown was doing triple the business it was compared to before the Arena opened. These downtown businesses produced \$450 million in revenue resulting in \$12.6 million in City taxes benefiting the entire community.

Currently, the Arena generates a direct economic impact of \$182 million per year. Including indirect and induced economic impact, that figure grows to \$335 million. There are 1,140 jobs representing \$82 million in payroll across more than 50 businesses, which are directly attributable to the Arena, its operations and tenants.

Expenses and Revenues

Under the current and proposed agreement framework, the City has not and will not have to incur any operations, event or maintenance expenses. These have been and will be paid by the Suns and their affiliates.

Capital expenses will be shared by the City and Team/Operator. Prior to this proposed renovation, the City has invested approximately \$80 million into the Arena, and the Suns have invested about \$150 million. Under this new proposal, the City will fund up to \$150 million in the renovation, with the Suns contributing at least \$80 million. The Suns also will build a new practice facility in Phoenix, estimated at \$25 to \$50 million. Additionally, the City will commit up to \$25 million in future capital repairs and the Suns will contribute at least \$12.5 million.

The City collects approximately \$12.8 million annually from the Arena, its operations, tenants and vendors. This includes about \$1.5 million annually in operating fees (rent) and the remainder in taxes from activity associated with the Arena. The proposed agreement structure is anticipated to increase fees/rent to the City by approximately \$60 million over the term.

Downtown Revitalization and Community Benefit

Successful metropolitan downtowns include a dense, diverse mix of uses, including residential, retail, restaurants, hospitality, office and entertainment. The Arena is part of this mix as it hosts concerts, family shows and professional sports, such as the Phoenix Suns, Phoenix Mercury and Arizona Rattlers. In addition, the Arena hosts conventions that attract tens of thousands of attendees from around the world that Phoenix would not otherwise be able to accommodate.

The Arena hosts approximately 130 events annually, which have brought 40 million people to downtown Phoenix since the facility opened. This regular influx of visitors reliably supports a variety of businesses, from downtown hotels, restaurants and bars, to local businesses that support the Arena with goods and services.

Additionally, Phoenix Suns Charities contributes about \$1 million annually to benefit the community. Also, Phoenix's image, when its skyline is on display during nationally televised Arena events, is seen across the globe resulting in 43 million marketing impressions annually.

Conclusion

The Arena has been a downtown anchor for nearly 30 years, bringing 40 million visitors to the City's core. It has been key to the vitality, growth and success of downtown and has generated City General Fund revenues that provide essential services throughout Phoenix.

The Arena is nearing the end of its current life cycle, in terms of its physical infrastructure as well as the contracts with the operator and anchor tenants. It is among the smallest NBA arenas and also is the oldest that is not in the process of being replaced or that has not received a major, recent renovation. The proposed partnership with the Suns reinvigorates the Arena through at least 2037. It leverages significant private investment, mitigates operational risk to the City, increases revenue available for Citywide services and will help keep downtown strong long-term.