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Joshua J. Hicks, Partner
jhicks@mcdonaldcarano.com

Reply to Reno

March 11, 2025

Via Email

Reno City Council
c/o Reno City Clerk
1 E. First Street
Second Floor
Reno, Nevada 89505
Cityclerk@reno.gov

Re: Catalyst Project Application for Tax Increment Financing by Power Sports Development, LLC for the Grand Sierra Resort Arena Development Project

Dear Councilmembers,

This letter is submitted on behalf of Caesars Entertainment, Peppermill Resort Spa Casino, Golden Road Motor Inn, Inc., BCH Gaming Reno, LLC, Nugget Sparks LLC and the Bonanza Casino LLC (collectively, the “Coalition”) with respect to Agenda Item B.3 before the Redevelopment Agency Board at its meeting scheduled for March 12, 2025. This letter is intended to supplement a prior letter sent to City Council on behalf of the Coalition dated February 19, 2025 raising concerns regarding the use of tax increment financing (“TIF”) for the proposed arena and expansion project at the Grand Sierra Resort within Redevelopment Area 2 (the “Project”).

As mentioned in the Coalition’s prior letter, the Coalition does not generally oppose the Project itself. However, the Coalition remains opposed to the use of tax increment financing (“TIF”) to fund the Project, which does not appear to be a lawful use of TIF.

Threshold Eligibility Concerns

The Coalition has previously raised concerns over whether the Project can satisfy threshold eligibility requirements for the use of TIF. The use of TIF funds in a redevelopment area is authorized by NRS Chapter 279 and intended to be used in “blighted areas which constitute either social or economic liabilities, or both . . .”¹ As recently as August of 2024, the City stated that the

¹ NRS 279.416.

mcdonaldcarano.com

100 West Liberty Street • Tenth Floor • Reno, Nevada 89501 • P: 775.788.2000
2300 West Sahara Avenue • Suite 1200 • Las Vegas, Nevada 89102 • P: 702.873.4100



“Grand Sierra District consists mostly of the Grand Sierra Resort and the supplemental properties supporting the resort. As many of these parcels are well-kept and only serve the resort and guests, there is little need for redevelopment in this area and thus little need for redevelopment funding support.”² As the consideration for TIF at the Project moves forward, at what point will there be a determination of whether the Project falls within a blighted area? And at what point will there be a consideration and reconciliation of recent statements by the City that redevelopment funds are not needed in the Grand Sierra District?

The Coalition has also previously raised concerns regarding the “but-for” test for TIF funds. Under that test, TIF funds are only appropriate where redevelopment cannot be accomplished “by private investment alone, without public participation and assistance.”³ As noted in the Redevelopment Agency’s own guidelines, compliance with the “but-for” test is considered a “threshold eligibility requirement.”⁴ At what point will there be a determination of whether the Project meets the threshold “but-for” test? Surely satisfaction of the “but-for” test requires a more independent and objective determination than mere reliance on self-serving statements from a project applicant.

The Coalition is concerned that this Project appears to be moving forward without an evaluation of these threshold eligibility questions. The City has already engaged a third-party consultant to perform an economic analysis, expending RDA 2 funds to do so.⁵ The Coalition believes these threshold determinations should be made before committing further RDA 2 funds.

Economic Projections

The Staff Report for the upcoming meeting also includes an economic review by Hunden Partners (the “Hunden Report”).⁶ The Hunden Report largely focuses on direct and indirect economic benefits to general community from the Project. However, it is unclear whether the Hunden Report evaluates all economic benefits to the GSR from the Project. For example, the GSR will undoubtedly benefit from increased revenues from room nights, gaming, food and beverage and retail sales. The construction of an arena, ice rink and a 500-room hotel tower will undoubtedly increase revenues at the GSR. Indeed, as noted above the City has already recognized that the Grand Sierra District “only” serves the GSR.⁷ Any benefits from the Project to the GSR are certainly relevant to whether the Project can meet the “but-for” test. However, any such benefits are not clear from the Hunden Report.

² City of Reno Redevelopment Agency Status Report, August 2024, 37.

³ RDA 2 Goal H from 2005 Plan.

⁴ City of Reno Redevelopment Agency, Participation Programs and Processes (August 2024), 5.

⁵ See “Conflict of Interest”, below.

⁶ City of Reno Staff Report to Redevelopment Agency, Item B.3, March 12, 2025, *Reno Area Proposal Review* by Hunden Partners, February 2025.

⁷ See fn 2.

The Hunden Report includes projections on net operating income to the GSR from the proposed arena.⁸ From 2028-2032, the net operating income projected is \$76,366,000.⁹ For years 2033-2037, it appears the net operating income projected is at least \$93,000,000.¹⁰ The total net operating income at the arena from 2028-2037 appears to be **at least \$169,366,000**. The total amount of TIF requested by the GSR for the Project over 30 years is \$89,700,000.¹¹ Again, a threshold eligibility requirement is that the Project cannot be accomplished “by private investment alone, without public participation and assistance.”¹² We are unaware of any prior TIF project in Reno that generates anything near this level of net operating income for the project applicant. This level of revenue generation, in addition to any revenue generated at the GSR from room nights, gaming, food and beverage and retail sales, is relevant to and must be considered in any evaluation of the “but-for” test.

It is also difficult to ascertain from the Hunden Report what portion of revenue projections are new and what portion are a movement of revenue from an existing location to the GSR. For example, the Hunden Report assumes as revenue ticket sales from UNR men’s basketball games.¹³ Of course, while that may be new revenue to the GSR, that is simply a movement of existing revenue away from Lawlor Events Center, a comparably sized existing arena where the UNR men’s basketball team currently plays.

The Hunden Report also identifies several other arenas built in Nevada with some form of public financing.¹⁴ Notably, none of these arenas used TIF. If approved, the GSR arena will be the first arena financed in Nevada through the use of TIF. Beyond the arena, the Project also includes a 500-room tower, an ice facility, 24,300 square feet of retail, a driving range and 300 apartments. Because of the location of the Project, these amenities will primarily benefit the GSR and not any other part of RDA 2. The use of TIF for a property-specific benefit also appears to be an unprecedented use of TIF.

Conflicts of Interest

It is important that the City have the benefit of an independent and objective financial analysis of the Project and whether the use of TIF is appropriate and lawful. On November 4, 2024, the City and Hunden Partners entered into an “Agreement for Arena and District Development Market, Financial Feasibility and Economic Impact Study.” That contract includes

⁸ Hunden Report, 24.

⁹ Id.

¹⁰ Id. While the projection only includes specifics for 2028-2032 and for 2037 and omits any reference to 2033-2036, we assume that net operating income for years 2033-2036 are at least equal to 2032.

¹¹ City of Reno Staff Report to Redevelopment Agency, Item B.3, March 12, 2025, 4 (“The Proposed Tax Increment requested is \$89.7 million . . .”).

¹² RDA 2 Goal H from 2005 Plan; City of Reno Redevelopment Agency, Participation Programs and Processes (August 2024), 5.

¹³ Hunden Report, 24.

¹⁴ Id., 15-16.

three phases. Phase 1 apparently covered the preparation and presentation of the Hunden Report. Hunden Partner's fee for Phase 1 was \$99,500. The contract also includes Phase 2 (Funding and Gap Analysis Advisory Services) and Phase 3 (Deal Negotiation). It appears from the contract that fees for those phases are yet to be negotiated but are in addition to the fees for Phase 1. This is important because it makes it clear that Hunden Partners stands to financially benefit from future phases of the contract if, and only if, the Project application proceeds.

In the Staff Report to the Redevelopment Agency, staff notes that the "next step in the review process is conducting a financial gap analysis, which will determine the extent to which public assistance is required for the project to be financially feasible . . . A key component of this analysis is applying the "But For" Test, which is a standard used in public financing to assess whether the development would occur "but for" the requested public assistance."¹⁵ Hunden Partners will apparently be asked to conduct Phase 2 (gap analysis) to evaluate whether the "but for" test is satisfied. However, the contract also includes Phase 3 (deal negotiation), which can only occur if the "but for" test is met. In other words, Hunden Partners stands to financially benefit if it advises the City that the "but for" test is satisfied. This appears to be anything but an independent and objective third party financial review.

Further, at the meeting of the Reno Redevelopment Agency Advisory Board on February 21, 2025, some questions were asked regarding the contract with Hunden Partners. In responding to those questions, RDA staff stated that 1% of the TIF generated in the first year on the Project would be a fee.¹⁶ It was not clear whether that is a fee paid to the RDA or to Hunden Partners, or both. If that fee or any portion thereof goes to Hunden Partners, the conflict of interest issue is even more significant.

This conflict of interest should be addressed before the process goes any further.

Expiration of RDA 2

RDA 2, where the Project is located, will expire in February of 2035.¹⁷ An extension of RDA 2 beyond 2035 will require legislative action. To date, no such legislation has been introduced, let alone considered and passed. The Project nonetheless expects to receive TIF for 30 years. GSR has stated it does not intend to bond against TIF revenues, meaning the Project will be built by GSR using its own funding sources – and not TIF. We fail to see how this can satisfy the "but-for" test. If the GSR can construct the Project without TIF on the front-end and is willing to do so despite the expiration of RDA 2 in 2035, the Project can be built with private funds and cannot satisfy the "but-for" test.

¹⁵ City of Reno Staff Report to Redevelopment Agency, Item B.3, March 12, 2025, 3,

¹⁶ [Redevelopment Agency Advisory Board Meeting - February 21, 2025](#), at 2:21:05.

¹⁷ See NRS 279.439(1) (providing that a redevelopment plan adopted after January 1, 1991 terminates no later than 30 years after the date the plan was adopted). The plan for RDA 2 was adopted in February of 2005.

The Use of TIF for Operational Expenses

Because the GSR is clearly willing and able to pay the up-front construction costs of the Project without TIF and is willing to do so despite the expiration of RDA 2 in 2035, it seems clear that the GSR intends to use TIF not for construction costs, but instead to offset ongoing operational costs. We do not believe this is an appropriate use of TIF under Nevada law. The term “redevelopment” is defined in NRS Chapter 279 as the “planning, development, replanning, redesign, clearance, reconstruction or rehabilitation, or any combination of these, of all or part of a redevelopment area.”¹⁸ This restriction is aligned with the “but-for” test, discussing the applicability of the test to “*replanning, redesigning and redevelopment* of areas in the Redevelopment Area which could not be accomplished by private investment alone, without public participation and assistance.”¹⁹ (emphasis added). It is further aligned with other goals of the RDA 2 Plan regarding the “*installation of new public improvements or replacement of existing public improvements, facilities and utilities in areas which are currently inadequately served by such improvements, facilities and utilities.*”²⁰ (emphasis added). Notably absent from state or local law is any indication that TIF funds are appropriate for post-development operational costs. As with so many aspects of the Project, the use of TIF funds for operational expenses would appear to be unprecedented.

Conclusion

The Coalition asks that the Council consider the comments made in this letter, as well as the Coalition’s prior letter. There is no question that the GSR expansion presents exciting opportunities for the community. However, the Coalition has serious concerns about the use of TIF funds to finance that expansion. Thank you for the opportunity to present these additional concerns.

Sincerely,



Joshua J. Hicks

¹⁸ NRS 279.408(1).

¹⁹ RDA 2 Goal H from 2005 Plan.

²⁰ RDA2 Goal J from 2005 Plan.