

STAFF REPORT

Date: March 12, 2025

To: Mayor and City Council

Through: Jackie Bryant, City Manager

Subject: Staff Report (For Possible Action): Acceptance of market analysis report from Hunden Consultants and potential direction to proceed with financial gap analysis and deal negotiations for the Grand Sierra Resort Expansion and Arena Project.

From: Bryan McArdle, Revitalization Manager

Department: City Manager's Office

Summary:

The Meruelo Group has submitted a Catalyst Project application for tax increment financing (TIF) to support their proposed \$1 billion arena development project at the Grand Sierra Resort (GSR). The project plan includes a 10,000-seat arena, satellite ice rink, parking garage, 800 new hotel rooms, and 300 affordable housing units on the 140-acre site (APN 012-211-28). The project is being pursued as a "Catalyst Project" through the Reno Redevelopment Agency's new participation program. City staff has reviewed the application and determined that it meets the necessary criteria to proceed to review and negotiation of a participation agreement.

The purpose of this report is to present the findings from Hunden Consultants' analysis and seek direction from the Redevelopment Agency Board (RDA) to proceed with a financial gap analysis and deal negotiations for the Grand Sierra Resort (GSR) Expansion and Arena Project. Additionally, the Redevelopment Agency Advisory Board (RAAB) has recommended engaging Hunden Partners for financial gap analysis and deal negotiation advisory services.

Council provided direction on October 23, 2024, to proceed to a market analysis with Hunden Partners. Below is the Staff Report on that Project. Staff recommends proceeding to a financial gap analysis and deal negotiations.

Alignment with Strategic Plan:

Economic and Community Development

Previous Council Action:

- August 14, 2024 - Council adopted the Redevelopment Agency Participation Program and Application Form.
- October 23, 2024 - Council directed staff to proceed with a Market Analysis with Hunden Partners.

Background:

The Meruelo Group, owner of the Grand Sierra Resort, is proposing to build a state-of-the-art, 10,000-seat arena at the GSR, which will serve as the future home of the University of Nevada's men's basketball team. The Nevada men's basketball team has played in the Lawlor Events Center since the 1983-84 season, while the Nevada women's basketball team will continue to use the Lawlor Events Center.

The project plan will include additional amenities such as a satellite ice rink and a dedicated parking garage to support arena visitors. The arena will not only host Wolf Pack basketball games but will also be designed to accommodate concerts, major sporting events, and entertainment performances, making it a versatile facility for Northern Nevada. A new hotel tower with 800 rooms and a new housing development for their workforce consisting of 300 residential units are also proposed.

The estimated cost for this project is \$1 billion. The project is anticipated to serve as a significant economic driver for the city, promoting tourism, enhancing the local entertainment scene, and acting as a centerpiece for redevelopment while adding workforce housing.

The application was reviewed and scored based on the following criteria outlined in the City of Reno's Catalyst Project Assistance Program:

- Project Viability: Assessed on factors including the developer's performance history, financial capacity, project vision, and a third-party market study.
- Area Benefit: Evaluated for catalyst impact, job and revenue generation, density, placemaking features, construction labor impact, social benefits, community input, and fiscal benefits.

Discussion:

Staff has reviewed the Meruelo Group's application and determined it is complete and meets the "Catalyst Project" criteria established by the Redevelopment Agency participation program. As a major project expected to enhance economic development in the region, the proposed arena is projected to generate substantial long-term benefits, including:

- Job creation during both construction and operation phases
- Increased tax revenues for the city and region
- Improved infrastructure and public services in the surrounding area

- A boost to tourism, hospitality, and retail sectors
- Provision of workforce housing

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. The financial gap analysis will involve:

- Evaluating total project costs, including construction, infrastructure, and operations.
- Assessing available private funding, financing options, and expected revenue streams.
- Identifying any shortfall that prevents the project from proceeding without public support.

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. This test ensures that the TIF or other incentives are necessary for the project to proceed and are not merely a subsidy for a project that would be developed regardless.

The gap analysis findings will be used to negotiate the terms of a public-private partnership, ensuring that the level of public assistance is justified and aligned with the economic benefits the project will generate.

This third-party consultant's findings will be critical in shaping the public-private partnership and final development agreement, ensuring that the project aligns with the city's long-term redevelopment and financial objectives. The negotiated participation agreement, along with the TIF deal structure, will be presented to the Redevelopment Agency Board for review and approval once completed.

It is also suggested in the analysis that a 20 year extension to the RDA 2 area may be necessary for this project to be viable. Staff will review the methodology and feasibility of the project with, and without, extending the RDA 2 area to 2055 and will seek to negotiate a public private partnership agreement that allows for the potential extension, if and when it is appropriate. Pursuant to NRS 279.608, amendments to the redevelopment plan, including boundary modifications, require a recommendation from the Planning Commission, followed by a public hearing with proper notice. Final approval rests with the City Council as the legislative body. Additionally, an extension of RDA 2 will require approval by the state legislature.

Project FAQs:

How much will Reno pay the Developer?

Reno will not pay the Developer any direct funds. Instead, the Developer benefits by recapturing

a portion of the incremental property taxes that are created because of the Project's new construction.

What happens if the Developer does not build out the other phases?

The Developer will not receive any benefit because there would be no increase (increment) in property taxes without the new development.

Why is Reno considering this structure?

The extension and adjustment aim to ensure the project's financial feasibility, attract further private investment, and create long-term economic benefits for Reno.

Financial Implications:

The tax increment financing will be structured to ensure that the project is financially beneficial to the City of Reno and will minimize fiscal risk. Agency funds will be expended to conduct the due diligence and negotiation process; however, those funds will be recouped via the 1% agency administration fee at the completion of the project out of the first tax increment reimbursement.

The project could generate \$349.1 million in incremental property tax over the next 30 years. The Proposed Tax Increment requested is \$89.7 million, leaving \$252.2 million in new tax increment revenue for the region. The project will have a \$4 billion economic impact on the region and support 671 jobs.

Through 2055, the project is expected to generate \$17.5 million in new C-Tax and \$5.2 million in City Room Tax, or \$600,000 per year and \$200,000 per year respectively.

Legal Implications:

Legal review completed for compliance with City procedures and Nevada law.

Recommendation:

Staff recommends Council accept the Hunden Partners Market Analysis Report of the Grand Sierra Resort Expansion and Arena Project and direct staff to proceed to financial gap analysis and public private partnership negotiations.

Proposed Motion:

I move to approve staff recommendations.

Attachments:

Hunden Partners - Grand Sierra Arena Expansion and Arena Project Market Analysis