



**REPORT TO SUCCESSOR AGENCY BOARD OF
THE REDEVELOPMENT AGENCY OF THE CITY OF LAKE ELSINORE**

To: Honorable Agency Chair and Members of the Successor Agency

From: Jason Simpson, Executive Director

Prepared by: Barbara Leibold, Agency Counsel

Date: January 10, 2023

Subject: **Ninth Amendment to Stadium Interim Management Agreement**

Recommendation

Adopt A RESOLUTION OF THE SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY OF THE CITY OF LAKE ELSINORE APPROVING A NINTH AMENDMENT TO THE STADIUM INTERIM MANAGEMENT AGREEMENT BETWEEN THE SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY OF THE CITY OF LAKE ELSINORE AND THE LAKE ELSINORE STORM LP.

Background

In 1994, the former Redevelopment Agency of the City of Lake Elsinore (the “RDA”), completed the Lake Elsinore Diamond Stadium (“Diamond Stadium”) on property donated for purposes of developing a minor league professional baseball stadium. The Diamond Stadium was intended to stimulate economic development and redevelopment within the Rancho Laguna Redevelopment Project Area 3 consistent with and in furtherance of the Redevelopment Plan. As required by that certain First Amendment to Amended and Restated Option Agreement Under Threat of Condemnation and Irrevocable Offer To Donate Stadium Site and Stadium Access Parcel and Unconditional Acceptance Subject To Covenants, Conditions, Restrictions and Reservations dated August 5, 1993, the RDA operated, managed and maintained the Diamond Stadium pursuant to various agreements.

In 2001 and 2002, the RDA entered into certain agreements involving the operation and maintenance of the Diamond Stadium, including a License Agreement, a Stadium Field and Maintenance Agreement, and a Concession License Agreement (collectively, the “Stadium Operations Contracts”). Pursuant to the Stadium Operations Contracts, the Storm licensed and maintained the Stadium for baseball games and other Storm events. An affiliate of the Storm, Golden State Concessions and Catering, Inc. (“Golden State”), operated the concessions at the Stadium. Under the Stadium Operations Contracts, the RDA’s management, operation and maintenance costs were significant and the Stadium operated at a loss.

Stadium Interim Management Agreement Ninth Amendment

In 2005, the RDA commenced negotiations with Diamond Stadium Group (DSG) to undertake all of the Stadium operations, maintenance and management responsibilities. Storm LP, Golden State and DSG share common controlling ownership. Negotiations between the RDA and DSG resulted in June 2007 amendments to the Stadium Operations Contracts and a new Stadium License, Lease and Management Agreement (the “2007 Management Agreement”).

DSG fulfilled all aspects of the 2007 Management Agreement which reduced the RDA’s Stadium-related costs. However, in June 2011 DSG elected to exercise its right to terminate the 2007 Management Agreement effective December 31, 2012 citing annual losses under the 2007 Management Agreement. Upon termination of the 2007 Management Agreement, the rights and responsibilities for Stadium management, operations and maintenance were again divided in accordance with the Stadium Operations Contracts; however, at that time, the RDA had been dissolved and the Successor Agency did not have the resources to satisfactorily perform its obligations.

On December 11, 2012, the Successor Agency approved the Stadium Interim Management Agreement (“Interim Agreement”) to provide for the efficient and cost effective management, maintenance and operation of the Stadium by the Storm through 2013. A First Amendment to the Interim Agreement was approved in September 2013. A Second Amendment to the Interim Agreement was approved in September 2014, a Third Amendment was approved in September 2015, a Fourth Amendment was approved in September 2016, a Restated Fifth Amendment and Extension (collectively, “Fifth Amendment”) was approved in May and June 2018, a Sixth Amendment was approved January 8, 2019, a Seventh Amendment and an Amended and Restated Seventh Amendment (collectively “Seventh Amendment”) was approved January 14, 2020 and January 12, 2021, respectively, an Eighth Amendment and an Amended and Restated Eighth Amendment (collectively “Eighth Amendment”) was approved January 14, 2022 and September 13, 2022, respectively.

The State Department of Finance has approved the allocation of Real Property Tax Trust Funds for Stadium obligations in accordance with the Successor Agency Recognized Obligations Payment Schedules (ROPS). The Interim Agreement and the First through Eighth Amendments have been successfully implemented to provide for efficient and cost effective management, maintenance and operation of the Diamond Stadium.

Discussion

The 2020 and 2021 baseball seasons suffered tremendous challenges due to the COVID-19 pandemic. Minor League baseball was cancelled in 2020 and the Stadium operations were significantly restricted. Major League Baseball (MLB) engaged in a sweeping overhaul of the player development structure during the 2020 off-season, eliminating the National Association of Professional Baseball Leagues (NAPBL) as the governing structure and cutting approximately twenty-five percent (25%) of minor league affiliates. Remaining affiliates now contract directly with MLB under a new Player Development License agreement finalized in 2021 and aimed at modernizing facilities and improving player training and logistics. In this restructure the Storm has been designated as a “Class A” team.

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The impacts of COVID-19, Major League Baseball restructuring in 2020 increases in minimum wage and current inflationary pressures continue to affect Stadium operations and the parties' budget assumptions and projections, including operational and capital requirements and facilities standards established by MLB in the Player Development License. In order to address these impacts and provide certainty to the Successor Agency and the Storm for the continued efficient and cost effective management, maintenance and operation of the Diamond Stadium through the 2024 baseball season, the Successor Agency proposes to enter into a Ninth Amendment ("Ninth Amendment") extending the term one year to September 30, 2024. The proposed Ninth Amendment also updates the Capital Repair schedule as set forth in Exhibit "C."

Absent the Ninth Amendment, the existing Interim Management Agreement will expire on September 30, 2023 at which time the burden of maintaining, managing and operating Diamond Stadium under the Stadium Operations Contracts will fall onto the Successor Agency. The Successor Agency lacks the personnel and the expertise to fulfil these contractual obligations.

The proposed Ninth Amendment is reasonable and necessary to satisfy the Successor Agency's contractual obligations under the Stadium Operations Contracts and to protect and maintain the assets of the Former Agency. The Storm possesses the experience, capabilities and qualifications to best carry out these obligations. The proposed Ninth Amendment is in the best interests of the taxing entities because the Storm's skills, knowledge and resources will provide continued, efficient and cost effective management, maintenance and operation of the Diamond Stadium which will protect the public's investment in the Stadium, minimize costs and mitigate against potential breach of contract and related damages.

Interim Management Agreement - The Interim Stadium Management Agreement as amended by the proposed Ninth Amendment incorporates the obligations under the Stadium Operations Contracts and provides for a Capital Improvement Schedule.

During the 2023-2024 term of the Ninth Amendment, compensation to the Storm for the performance of the maintenance, management and operations services shall be as follows:

- (a) Assignment of GRCS Concession Fee. Successor Agency assigns Successor Agency's right to payment of the GRCS Concession Fee under the Concession Agreement to the Storm during the 2023-2024 term, estimated at \$34,000 annually; and
- (b) Waiver of License Fee. Successor Agency waives Successor Agency's right to payment of the License Fee in the amount of \$590,420 for the period October 1, 2023 through September 30, 2024 under the License Agreement as an offset against the payments due by the Successor Agency to the Storm; and
- (c) Payment of Maintenance Fee. Successor Agency shall pay the Annual Maintenance Fee in the amount of \$280,003 for the period October 1, 2023 through September 30, 2024; and
- (d) Payment of Additional Interim Management Fee. Successor Agency shall pay to Storm \$881,408 for the period October 1, 2023 through September 30, 2024, payable in equal monthly installments ("Additional Interim Management Fee").

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The Maintenance Fee along with the Additional Interim Management Fee will result total cash payment from the Successor Agency to the Storm of \$1,161,411 for the period October 1, 2023 through September 30, 2024 as consideration for services provided under the Stadium Operations Contracts and the Interim Agreement, which aggregate amount shall be payable in equal monthly installments of \$96,784,.25 for the period October 1, 2023 through September 30, 2024.

The Successor Agency continues to be responsible for all Capital Repairs and alterations consistent with the Stadium Operations Contracts. Projected Capital Repair expenditures under the proposed Eighth Amendment includes \$1,197,000 for the 2023-2024 term of the Ninth Amendment.

The Ninth Amendment is subject to the approval of the Riverside Countywide Oversight Board and the Department of Finance (DOF).

Fiscal Impact

The proposed Ninth Amendment provides a high level of certainty relating to the costs of Stadium operations and maintenance under the Stadium Operations Contracts. The Successor Agency ROPS 22-23 included Real Property Tax Trust Funds to cover the Successor Agency obligations for the period of July 1, 2022 through June 30, 2023. ROPS 23-24 includes a request for Real Property Tax Trust Funds to cover the Successor Agency obligations for the period of July 1, 2023 through June 30, 2024.

Attachments

Attachment 1- Resolution Approving Ninth Amendment to Stadium Interim Management Agreement

Attachment 2 - Ninth Amendment to Stadium Interim Management Agreement

Attachment 3 - Stadium Interim Management Agreement