

**DRAFT**

# Memorial Coliseum Baseline Conditions Summary Report and Recommendations



Prepared for the Portland Development Commission



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## ACKNOWLEDGEMENTS

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ECONorthwest completed this project for the Portland Development Commission under a sub-contract with the Farkas Group. Abe Farkas of the Farkas Group was project director. Lorelei Juntunen of ECONorthwest was project manager. Susan Davis and Emma Stocker of ECONorthwest provided additional project support.

Many other firms, agencies, and staff contributed to other research that this report relied on; much of that research is documented in detail in the technical appendices associated with this report. The Farkas Group and ECONorthwest gratefully acknowledge the substantial assistance provided by staff at the Portland Development Commission, the City of Portland Bureau of Planning and Sustainability, and the City Office of Management and Finance. Portland Arena Management (PAM) and AEG also contributed significant data and time in review of the draft document. The following sub-consultant firms also made critical contributions:

- C. H. Johnson Consulting, Inc.
- Boora Architects
- KPFF Consulting Engineers
- Glumac
- Hoffman Construction Company

Throughout this summary and the supporting technical memoranda, the consultant team has identified sources of information and assumptions used in the analysis. Within the limitations imposed by uncertainty and the project budget, the consultant team and the Portland Development Commission have made every effort to check the accuracy of the data and assumptions and to test the sensitivity of our analysis to changes in key assumptions. We have also described our analytic techniques and their limitations. The Portland Development Commission and City of Portland staff have reviewed our analysis for accuracy and content. As time passes the results in this report should not be used without correcting for changing parameters such as shifts in the local and national market for development, physical modifications to the building, etc.

## WHY THIS STUDY?

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The City of Portland is facilitating a public process to gather and evaluate proposals for the renovation or adaptive re-use of the Memorial Coliseum (Coliseum). This study documents the architectural and engineering, operational, and financial health of the Coliseum in its current use; it also documents how the existing building conditions and operations might influence proposed changes to the use or form of the building. This information will be critical to proposers and evaluators of renovation or adaptive re-use concepts.

This document summarizes the information contained in five technical appendices, and outlines the implications of key findings for the Coliseum's future. An expert subcontractor researched and wrote each technical appendix:

### Coliseum Fast Facts:

- Dedicated January 1961
- 100 ft tall building with a footprint of 129,600 gross square feet\*
- 197,600 gross square feet in the entire building, including Exhibition Hall (40,000 square feet) and meeting rooms (18,000 square feet)\*
- Designed by Skidmore, Owings & Merrill, known for landmark structures across the country
- Building listed on the National Register of Historic Places in September of 2009
- Four concrete piers support the steel roof, with no interior columns
- 9,135 permanent seats can be expanded to 12,000 seats with portable chairs and telescopic seating
- Owned by the City of Portland, operated through a management agreement with Portland Arena Management (PAM) which also manages the Rose Garden. PAM contracts with AEG, an international venue management company that also operates the STAPLES Center, the Nokia Theatre Times Square, and many others
- An average of about 430,000 people visited the Coliseum each year between 2007 – 2009, for a total of about 154 events\*\*
- Home to the Trailblazers until the Rose Garden opened in 1995
- Winterhawks are major tenants; other events include conventions, touring shows, and high school graduations
- Notable recent events included a Barack Obama rally, the Mountain DEW Action Sports Tour, and the 2007 Davis Cup Tennis Finals between the USA and Russia

- A. Review of Operating and Management Structure, both historical and current (C. H. Johnson Consulting, Inc.)
- B. Historic status and architectural issues (Boora Architects)
- C. Structural engineering issues (KPF Consulting)
- D. Mechanical, Electrical, and Plumbing engineering issues: (Glumac Consulting)
- E. Cost Estimates (Hoffman Construction)

The consultant team conducted interviews; toured the Memorial Coliseum; reviewed previous architectural, engineering, and operations studies; and reviewed data about events and revenues for the Coliseum. More detailed methods are contained in the appendices: each technical appendix was completed using methods appropriate to that discipline.

### B

\*Data from National Register of Historic Places listing document

\*\*Data provided by Portland Arena Management (PAM). Includes all events that occur in the meeting rooms, exhibition halls, and arena bowl.

## KEY FINDINGS

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The Memorial Coliseum has operated as a spectator arena for nearly 50 years, and, like many older arenas, requires investment in its mechanical, electrical, and structural systems to keep it functional. The City of Portland must decide whether to make the necessary improvements to the Coliseum to keep it operating as an active spectator arena or work with partners to redevelop the venue for some other public or private use.

This section of the summary report provides a summary of five key considerations that will influence decisions about the Coliseum's future:

- Memorial Coliseum profitability
- Historic status of the building
- Needed improvements and costs
- Revenues to the City from the Coliseum
- Funds available to support re-use concepts

## MEMORIAL COLISEUM PROFITABILITY

The Memorial Coliseum was opened at a time when the industry standard for sports arena design was more utilitarian, and many arenas of this era have faced challenges related to profitability. New arena developments have flourished, and in the National Basketball Association (NBA) and National Hockey League (NHL) cities throughout the country, older arenas have been replaced with modern venues that have been more profitable. The Memorial Coliseum is no exception; when the Trailblazers left for the Rose Garden Arena in 1995, the Coliseum lost its major tenant.

"The Memorial Coliseum faces significant competition from the Rose Garden Arena, and its event mix and attendance levels have declined over the years. The Coliseum will never be able to compete with a modern arena. However, if the City chooses to maintain it in its current use, the Coliseum may be able to position itself as the economical alternative to the Rose Garden, should certain improvements be made. The Memorial Coliseum can continue to play an important role in Portland's meeting industry as a large assembly venue.

At the same time, myriad options for redevelopment, both public and private, exist. The virtually column-free structure of Memorial Coliseum might be well-suited for a variety of uses, if the facility were upgraded and necessary improvements made. Unlike most arena designs of its generation, Memorial Coliseum's glass wall design, coupled with impressive ceiling heights, creates a structure that is both lively and interactive with its surroundings. All options require careful consideration with respect to development costs, potential tax revenues, fiscal benefit, implications of the historic context, ability to attract outside visitors to the City, and whether the development concept is in keeping with the vision for the area."

-C.H. Johnson Review of Operations and Management Structure

Key questions facing the City and the Coliseum operators now are: What is the highest and best use of the Memorial Coliseum? How can the Coliseum be more profitable with its current or alternative uses? What investments must be made to increase the facility's marketability and usefulness?

C. H. Johnson Consulting, Inc. evaluated these questions in detail; results are provided in Technical Memorandum A attached to this study. The full appendix investigates the operational aspects of the Coliseum, including a review of recent demand and financial performance, the overall marketability of the venue, and an assessment of the existing management

agreement. Relevant key findings follow.

- **Event mix.** In the years following the Trailblazers departure, the mix of events has shifted to fewer spectator events (concerts, sports events, etc.) and more meetings and assemblies, most of which are locally-generated. Despite a lower rent structure, the facility's outdated systems (such as low capacity for rigging for concerts and a small loading dock) result in higher costs borne by concert promoters who must pay for additional costs associated with moving in their event. The result is a reduced marketability of the venue for many productions.<sup>1</sup> The Coliseum, however, has enjoyed notable success in booking a number of large meeting and assembly events in both business and religious markets. These events have minimal move-in requirements and prefer more affordable rent. Future bookings for events of this type have been made through 2016. A comparable pairing of venues of this type is uncommon in a medium sized market such as Portland, with two arenas adjacent to one another both functioning as spectator facilities. While this can be a benefit for events that require dual venues, larger single events typically will choose the Rose Garden Arena due to its distinct operating advantages.
- **Costs generally higher than revenues.**<sup>2</sup> The facility generates about \$1 million in operating revenue, but given operating expenses, it typically generates a loss. A notable exception is the 2007-08 fiscal year in which Memorial Coliseum hosted the Davis Cup Tennis Championship, and generated a net income of \$284,000. As is typical for a spectator venue, most of the direct event income from ticket sales goes to the event promoter. The venue is, therefore, generating the bulk of its revenue from ancillary event income from concession, catering, and merchandise sales. Concession facilities at the Coliseum lack the capacity and amenities seen at the newer venues with which it competes. The Coliseum is, therefore, unable to take advantage of many of the new branded food concepts that other arenas provide.
- **Details of the operating agreement between the City and Portland Arena Management (PAM).** The agreement between the City and

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<sup>1</sup> Three concerts were booked in 2008-09, evidence of the challenge the venue faces both in its current physical state as well as in an extraordinary economic downturn.

<sup>2</sup> It is important to note that, because of the terms of the operating agreement between Portland Arena Management (PAM) and the City, PAM has absorbed operating losses generated by the Coliseum with no recourse to the City for reimbursement.

PAM has the following general terms for marketing the Coliseum and profits / losses with the City, which affect both PAM and the City:

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Overview of operating agreements between PAM and the City regarding redevelopment

If Memorial Coliseum remains a spectator arena, the existing Management Agreement with PAM expires in 2013 and allows PAM the right to two five-year contract extensions.

If the City elects to redevelop the facility into something other than an arena, the City has the right to terminate the Management Agreement and regain control over Coliseum Management. If the City decides to open the Coliseum to private redevelopment, PAM has a right of first proposal for three years

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*Reduced expenses.* Through an original management agreement signed in 1993 and a succession of legal and financial events, Memorial Coliseum is operated by PAM, which has the same ownership as the Portland Trailblazers basketball team. PAM operates both the Memorial Coliseum and the Rose Garden Arena with a shared staff, including administrative, marketing, operations, and security personnel, with one staff person whose primary responsibility is the marketing and booking of the Memorial Coliseum. This arrangement allows economies of scale that reduce the overall expenses associated with running the Coliseum.

*Profit incentives.* PAM receives 40% of the net income produced by the Coliseum. The City receives 40% of the net income produced by the Coliseum; the remaining 20% goes to a City-controlled capital improvement fund. PAM absorbs all operating losses generated by the Coliseum, while the City, which owns the facility, is responsible for capital improvement to the facility.

*Profit sharing.* PAM is entitled to recoup operating losses incurred in a given year from any of the three subsequent years. Therefore, the \$284,000 in net revenue generated in 2007-08 noted above was retained by PAM to make up for previous years' losses.

*Financial statement.* The Coliseum has lost money in eight of the last ten years, resulting in a negative cash position for both the City and PAM.

- **Possible investments to improve marketability and profitability.** Given Memorial Coliseum's physical condition, the key question is whether improvements and upgrades made to the facility can be financially justified by the expected increased use associated with the upgrade. Both of these questions must be weighed against the alternative option to reposition the venue into something other than a spectator arena. Many older arenas that lost their primary tenants have failed to generate the necessary event demand to remain operational, and have been demolished to make way for other developments or parking for the new facility. Examples exist in which older venues have been able to continue to serve an important public function. A later section in this summary includes case studies of each of these possible outcomes. Some ideas that might be considered:

*Marketing focus and venue size.* Consider a permanent reduction in seating capacity to make the venue more marketable to promoters for smaller events that do not want the atmosphere of a large venue with empty seats. The two-venue function is unique and has brought in events that use both facilities, such as the annual Mountain Dew Action Sports Tour. This show plays only five cities in America, and has enjoyed great success in Portland, becoming an annual event due in large part to AEG's proactive management and PAM's ability to offer both arenas to the promoter.

*Improvements to enliven the interior concourse of the Coliseum.* PAM has actively attempted to increase advertisement and marketing opportunities within the concourse of the Coliseum, with limited success, however murals, banners, advertising, and public art could make the Coliseum more marketable for a variety of event types. Concessions present the greatest opportunity for increasing revenues and PAM has made significant improvements to the variety of food offered. Concession stands might be able to be upgraded to allow for grills and fryers; however, this upgrade may be cost-prohibitive because of the building's design. The kitchen facility on the lower level is past its useful life, significantly reducing the range of food offerings that can be prepared on site. An upgrade to this kitchen would be a desirable addition to increase the usefulness of the Coliseum.

*Long-term tenant(s)(in addition to the Winterhawks).* Many older arenas have found success in bringing in a long-term tenant. An additional anchor tenant could increase profit. However, PAM and AEG have brought in several additional tenants including: Women's Professional Basketball, Arena Football (Prowlers), Roller Hockey, and PSU Men's Basketball. Women's basketball, Arena Football and Roller Hockey all failed at the Coliseum due to lack of attendance. College Basketball has subsequently moved to a smaller venue. These types of events not only provide a consistent source of revenue to the arena, they also bring thousands of visitors to a city each year. The challenge is retaining these other users in order to increase the viability of the facility.

The City could also consider options for redevelopment or re-use of Memorial Coliseum, which will require investments in the existing structure. All options require careful consideration with respect to development costs to the City, potential tax revenues, fiscal benefit, ability to attract outside visitors to the city, impact to the National Register of

Historic Places listing, and whether the development projects a theme in keeping with the overall plan of the City and sentiments of its citizens.

## HISTORIC STATUS OF BUILDING

On September 10, 2009, Portland's Memorial Coliseum was listed by the US Department of the Interior's National Park Service on the National Register of Historic Places. This listing was initiated by a group of Portland citizens to formally recognize the building as one of enduring architectural significance. This listing has a number of implications for future re-use, rehabilitation, and/or reconfiguration of the building and its site, most of which relate to the process for making alterations to the building.

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An excerpt from the National Register listing documents: Technical Memorandum B provides a detailed discussion of the implications of the listing on the National Register. Specific topics addressed in this memorandum include the process for listing the property and the governing agencies, the listing criteria for the Coliseum, the reviewing agencies that will decide on future alterations to the property, the regulations that govern alterations, the Historic Design Review process, and financial incentives available.

"The Memorial Coliseum is nominated to the National Register for its significant architectural value... Memorial Coliseum is exceptionally important as a unique application of International Style to an unexpected building type... The abstract qualities of the International Style used here, for large-scale public structure, provide grandeur and dignity to a commemorative building... the building provides a public face for Portland's shared aspirations in recreation and culture... The buildings advanced engineering allows it to provide a spatial experience unlike that in any other recreational venue on the West Coast. Its architectural qualities therefore provide the building with enduring historic value."

- National Register of Historic Places Registration Form for Memorial Coliseum, List date, 9/10/2009

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Key findings from the memorandum are summarized below:

- All types of renovation or adaptive re-use proposals, even those that include building demolition or changes to the building's contributing features, can be considered despite the recent listing. The listing affects the *process* by which the proposals are heard, and the questions that must be considered as decisions about the proposals are made.
- As part of the nomination document, the major architectural attributes found to be of historic significance included: (1) the sculptural bowl in the unadorned glass box, (2) the three-part massing of the building, (3) an entry canopy adjacent to but not engaging the Coliseum, (4) the main entry plaza and sunken plazas (which contain Veteran's Memorial walls). The meeting rooms and exhibit spaces in the basement do not contribute directly to the significant architectural qualities of the Coliseum.
- Because of the listed status, future renovation and / or development will be evaluated by: (1) the City of Portland, if the property remains publicly owned and no federal funding or tax exemptions are

pursued; or (2) the State Historic Preservation Office and National Park Service, if the property is sold to a tax-paying entity and / or federal funds are sought.

- The City of Portland's Zoning Code is applied to any proposed changes to the building regardless of ownership or funding sources. In the most likely scenario, the City of Portland's process will require historic design review from the Historic Landmarks Commission, which will consider the proposal within the context of the listing criteria. Denials are appealed to the City Council. Once a project has satisfied the zoning requirements and has applied for a building permit, there are specific sections of the Oregon Structural Specialty Code that address historic structures. In particular, seismic upgrades are not required if there is no change of use or appreciable increase in occupant load. Additionally, the building will not have to meet the current energy code if no substantial changes are made to the building's exterior.
- Proposals that maintain the historic attributes of the building may be eligible for certain financial incentives. These are discussed in more detail in a later section of this memorandum.

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## NEEDED IMPROVEMENTS AND COSTS

The Memorial Coliseum was constructed prior to modern building and energy codes, and used engineering strategies that may now limit some options for renovation or adaptive re-use of the building. Some major systems upgrades are required if the building is to remain in use as an arena. The questions facing those considering possible renovation of the building include: What are the key architectural and engineering issues that must be addressed to improve the building for its current use, and to meet code? What are the costs associated with these improvements?

Boora Architects and Hoffman Construction, together with consulting engineers from KPFF and Glumac, identified a list of needed improvements and current costs. Table 1 highlights hard costs associated with *baseline* improvements that are necessary for the operation of the facility or because a renovation or change in the occupancy classification would trigger updates to meet current code.<sup>3</sup> The value of the baseline improvements in Table 1 is approximately \$5.4M (\$7.0M with soft costs).

We note here that other improvements that would be desired for a *full upgrade* to the facility are *not* included in this summary or in Table 1. Those improvements are listed in Technical Memorandum E and described in Technical Memoranda C and D. The total value of the baseline improvements highlighted in Table 1 *and* additional improvements that would be desired for a **full upgrade** to the facility is approximately \$26M in direct construction costs (\$34M with soft costs included).<sup>4</sup> Hoffman Construction estimated cost escalation at 5% per year (of the total hard costs), which would average approximately \$1.3M per year between 2010 and 2013.

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<sup>3</sup> The type and extent of upgrades that *may* be triggered by code requirements would be determined primarily by two factors: (1) if there is a change in occupancy classification (which is somewhat unlikely) or (2) if the total value of proposed improvements reaches a certain dollar threshold, as outlined in the Oregon Structural Specialty Code. The cost estimates provided in this summary assume that any significant renovation of the facility is likely to trigger certain minimum code-mandated upgrades. However, a detailed proposal will be necessary to determine exactly which upgrades would be triggered by code. It is important to note that even some code-mandated improvements could be in conflict with other reviewing agency requirements for impacts to the historic character of the building. In this instance improvements would need to be negotiated on a case-by-case basis.

<sup>4</sup> The total dollar value of the hard costs associated with the baseline improvements and improvements for a fully upgraded facility, is approximately \$26,052,513 (\$2009). With the addition of 30% to account for soft costs (permitting, design, legal, contingencies), the total dollar value is approximately \$33,868,267 (\$2009). Technical Memorandum E includes a list of all improvements and costs.

**Table 1. Baseline improvements for operations, marketability, and code compliance (critical, desired, and less critical), with associated costs (\$2009)**

<b>Critical updates</b>			
<b>Item</b>	<b>Why needed?</b>	<b>Hard Cost</b>	<b>Timeline</b>
Partial replacement of plumbing domestic, waste, and vent piping	Continued service to restrooms and for other public use	\$725,625	As part of building remodel
Inspect and test power supply system	Necessary to ensure reliability of system	\$50,000	This work scheduling does not affect operation. At discretion of owner.
Upgrade handrails & guardrails at arena & concourse	Fire life safety issue / Code	\$205,110	As part of building remodel
Replace ice rink concrete flooring and cooling piping	To maintain operable ice rink for major tenant	\$1,200,000	Unknown - currently at 2x life expectancy
	<i>Critical update subtotal</i>	<i>\$2,180,735</i>	
<b>Less critical updates</b>			
<b>Item</b>	<b>Why needed?</b>	<b>Hard Cost</b>	<b>Timeline</b>
Revise and upgrade fire sprinkler coverage at lower level and concourse	Update to current codes	\$218,010	At discretion of owner
Seismic restraint of electrical equipment	Update to current codes	\$45,000	At discretion of owner
Seismic restraint of mechanical equipment	Update to current codes	\$161,250	At discretion of owner
Rebuild or replace existing air handling systems	Maintenance and air quality	\$967,500	As part of remodel
	<i>Less-critical update subtotal</i>	<i>\$1,391,760</i>	
<b>Desired updates</b>			
<b>Item</b>	<b>Why needed?</b>	<b>Hard Cost</b>	<b>Timeline</b>
Electrical improvements to meeting rooms	To create a more marketable space	\$200,000	As part of building remodel
Upgrade electrical in large exhibit hall	To create a more marketable space	\$490,000	As part of building remodel
Replace door hardware	ADA/ Fire life safety issue /Code	\$245,100	As part of building remodel
Replace emergency lighting	Fire life safety issue /Code	\$325,000	As part of building remodel
Replace arena roll-up doors	Operations	\$69,300	Unknown - frequently break down
Replace freight elevator	Operations	\$250,000	Unknown - beyond life expectancy
Upgrade kitchen	Operations	\$250,000	Unknown – currently not useable
	<i>Desired update subtotal</i>	<i>\$1,829,400</i>	
	Subtotal (critical, desired, and less-critical updates)	\$5,401,895	
	Soft costs (at 30%)	\$1,620,568	
	<b>Total</b>	<b>\$7,022,463</b>	

Source: Boora Architects, KPFF Consulting Engineers, Glumac, and Hoffman Construction Company. See Technical Memoranda C, D, and E for details

Note: Figures do not account for cost escalation (for hard costs). Hoffman Construction estimates cost escalation to be approximately 5% per year. Technical Memorandum E includes estimated cost escalation for all improvements—baseline and improvements for a fully upgraded facility.

In addition to the items listed in Table 1, there are a number of expensive upgrades that are not included in the baseline list of improvements because they are not currently required to meet code or for operation of the facility. The most significant of those upgrades are:

- Replace exterior curtain wall glazing system (\$7.9M). At this time, the curtain wall appears to be adequate and does not need to be replaced to meet energy code. Any attempt to replace it might trigger a Historic Design Review. However, because this item has been included in past cost estimates and reviews of needed upgrades and may someday need replacement, the team included it here for updated costing purposes.
- Replace exterior plywood fascia (\$1.2M). The existing plywood fascia was very recently painted and repaired and probably has a five- to eight-year lifespan. Because it is wood, though, it will need maintenance if it is not replaced. At this time, it is not an urgent or needed update, but replacement could result in increased efficiencies later in the Coliseum's life.
- Structural upgrades to meet seismic code (\$1.2M). Such upgrades would probably not be triggered by improvements to the building or by most adaptive re-use proposals.<sup>5</sup> However, if the City or another party were interested in improving the building's seismic resilience, the cost would be substantial.

It is important to note that there would no code-mandated improvements if the building continues to function in the same capacity and does not receive extensive remodeling/renovation. If renovation is undertaken, many otherwise code-required improvements can be negotiated with the City of Portland due to the building's historic status.

## REVENUES TO THE CITY

Between FY 2006-'07 and 2008-'09, the Coliseum produced an average of \$486,333 in revenue for the City of Portland from two sources: (1) a 6% user fee charged on each ticket sold, and (2) revenues from the City-owned parking facility. The money is used to cover the expenses associated with parking operations (an average of \$74,667 per year for FY 2006-'07 through 2008-09) and on building improvements (at an average of \$565,667 per year for the same three fiscal years).

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<sup>5</sup> Seismic upgrades are not required unless significant structural modifications are made to the building or if the occupancy was increased by more than 10%.

Table 2 provides an overview of the revenues and expenditures from each source. Expenses have included such items as a new arena curtain (\$300,000), equipment replacements in kitchens and other spaces (\$226,000), new carpets in meeting rooms (\$129,000), and a new Zamboni for the ice rink (\$67,000).

**Table 2. Revenues and expenses to the City from Memorial Coliseum operations, FY '06-07 to FY '08-09**

Fiscal Year	Revenues			Expenses		Total
	6% user fee	Parking revenues	Total revenues	Parking expenses	Building expenses	Revenues less expenses
2006 - '07	243,000	244,000	487,000	59,000	757,000	(329,000)
2007 - '08	271,000	287,000	558,000	67,000	601,000	(110,000)
2008 - '09	157,000	257,000	414,000	98,000	339,000	(23,000)
Total	671,000	788,000	1,459,000	224,000	1,697,000	(462,000)

Source: City of Portland Office of Management and Finance, 2009

Note: Parking garages are shared between the Memorial Coliseum and the Rose Garden; revenue figures are for events at the Memorial Coliseum and exclude revenues from Rose Garden Events.

All values in uninflated, current dollars.

The City's Office of Management and Finance notes that, at the current rate of spending, the City loses money on the Memorial Coliseum. Revenues from events at the Rose Garden make up the difference, and also fund all other City expenses in the Rose Quarter (including debt on City bonds). The City has commenced investment in deferred maintenance items starting in FY 2006, and this is a key factor in the current financial position of the facility.

## FUNDS AVAILABLE TO SUPPORT RE-USE CONCEPTS

Some funds from the Oregon Convention Center Urban Renewal Area (OCCURA) and other sources may be available to support capital costs associated with any renovation of the Coliseum.

- *Federal Historic Rehabilitation Tax Credits.* This is a bottom line reduction in federal income taxes paid by a for-profit entity, equal to 20% of the qualified rehabilitation costs. Tax credits can be sold to provide equity to support capital development funds. For this credit to apply, the cost of rehabilitation must be "substantial", which is interpreted as the cost of rehabilitation exceeds the pre-rehabilitation cost of the building. The property must also be income producing. Any proposed renovation should maintain the building's historic character, but in the absence of a specific proposal for renovation, it is difficult to assess what types of changes will be deemed eligible. All proposals are reviewed comprehensively to determine whether

or not they affect the historic character and are considered eligible for the program.<sup>6</sup>

This program is complicated, and requires attention to specific tax and legal parameters, as well as additional review requirements. These requirements and other details are described in Technical Memorandum A.

- *Special Assessment of Historic Property.* This special assessment provides a 10-year property tax freeze. A second 10-year term may also be available to properties. The program freezes the assessed value of the property. The use of the program triggers design review by the State Historic Preservation Officer. As with the Historic Tax Credit program described above, it is difficult to assess whether a potential renovation would be eligible for this program in advance of the review process itself.
- *City of Portland Zoning Incentives.* Because the building is listed as a historic building, it is eligible to transfer or sell some of the allowed zoning entitlements in the form of floor-area ratio (FAR) to other developments within two miles of the building, if the proposed re-use or renovation project maintains the building's historic features. While more detailed analysis would be needed to determine how much unused FAR is available at the Coliseum, a quick analysis indicates that it may be as much as 700,000 square feet<sup>7</sup>. There are many limitations to the use of this FAR:
  - There currently is no precedent for the City using FAR transfers for City-owned properties. Private owners have made use of these benefits.
  - The market for FAR is very limited in today's development climate. In a much more robust market several years ago, FAR sold at an average of about \$10 per square foot in some projects, but it is uncertain when that market will return.
  - It is unlikely that a single project could accept as much FAR as the Coliseum could offer.

Given these limitations, the zoning incentive could potentially inject some significant equity into a project (possibly as much as \$2 million at previous market values), but ONLY if the development market

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<sup>6</sup> Based on a memorandum provided by Heritage Consulting to PDC, 10/21/09, and follow-up email correspondence, 10/22/09.

<sup>7</sup> Based on conversation with staff at the Bureau of Planning and Sustainability, 10/16/09. Rough, order of magnitude estimates that would benefit from further verification.

returns to previous levels, a willing buyer is available, and a private owner intends to redevelop the site and maintain the building's historic features. In short, it is unlikely to be a realistic funding source for proposers the current development climate, though at some point it may be a more viable source of funds.

- *New Market Tax Credits.* The New Market Tax Credit program permits taxpayers to claim a credit against Federal income taxes for qualified investments. The credit is claimed over seven years; the investor receives a tax credit equal to 5% of the total amount paid for the capital interest or stock purchase over the first three years. For the final four years, the value of the tax credit is 6% annually. Using these credits requires the redevelopment project to be located in a census tract that meets low-income household criteria. While the Coliseum's tract is currently eligible, new census data will be available in 2010; assuming the investments are made after the new data become available, the investor will need to investigate the potential eligibility of the project for this program.
- *Business Energy Tax Credit (BETC).* The Oregon Department of Energy offers the Business Energy Tax Credit to those who invest in energy conservation, recycling, renewable energy resources, and less-polluting transportation fuels. The tax credit is 35 percent of the eligible project costs – the incremental cost of the system or equipment that is beyond standard practice. Trade, business or rental property owners who pay taxes for a business are eligible for the tax credit. A project owner also can be a non-profit organization or public entity that partners with a business or resident who has an Oregon tax liability. This can be done using what is called the Pass-through Option.<sup>8</sup>
- *Portland Development Commission Incentives.* Several relevant programs include: acquisition / rehabilitation loan, commercial development loan program, the quality jobs programs, and the economic opportunity fund. While these programs potentially apply, the funding available may be limited.
- *Tax increment funds from the Oregon Convention Center Urban Renewal Area.* Tax Increment Financing (TIF) totaling \$5.4 million has been allocated to the Rose Quarter Development Project from the OCC URA: \$3.5 million in Fiscal Year 2011-12 and \$1.9 million in Fiscal Year 2012-13. Future year tax increment revenues (estimated up to \$24.9 million) may be accessed through deferred interest bonds and

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<sup>8</sup> Information from the Oregon Department of Energy BETC program.

would require private placement. A financial analysis is underway to determine whether an expansion of the Interstate Corridor URA (ICURA) could generate additional revenue for the Rose Quarter Development Project; expansion of the ICURA would require concurrence by the N/NE Study Advisory Committee, which has been empanelled to review and advise on this possibility.<sup>9</sup>

- *Revenue Bonds.* A revenue bond is a type of municipal bond in which principal and interest are secured by future revenues expected from the project. Projects financed by revenue bonds typically include highways, airports, non-profit hospitals, and other vital infrastructure-oriented projects.<sup>10</sup>We note that because revenues from the Coliseum are currently allocated to servicing debt on City bonds, it is not likely that revenue bonds would be a viable source of financing for this facility.

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<sup>9</sup> Information provided by PDC staff in email correspondence to ECONorthwest, October 21 and 29, 2009.

<sup>10</sup> Information from the Oregon Department of Revenue

## WHAT HAS HAPPENED TO OTHER, SIMILAR FACILITIES?

Below are a few brief case studies, with details about the decisions that have been made regarding demolition, improvement, or re-use of the facility. None of these facilities has historic significance. Additional case studies and details are provided in Technical Memorandum A.

Arena Case Study Summary							
City	Venue Name	Year Built / Renovated	Cost (\$mil)	Basketball Seating Capacity	Recent Profitability	Local Competition (year opened)	Current Tenants
Memphis	Pyramid	1991	na	20,100	Vacant since 2007	FedEx Forum (2004)	na
Milwaukee	US Cellular Arena (MECCA)	1950/1995	10.0/10.5	10,800	The 3-venue Wisconsin Center nets a \$12 million loss annually	Bradley Center (1988)	University Wisconsin-Milwaukee (men's b-ball, Milwaukee Wave (indoor soccer), Milwaukee Bonecrushers (Arena Football))
Philadelphia	Spectrum	1967	7.0	18,200	\$1 million in net operating profit	Wachovia Center (1996)	2009 demolition planned
Seattle	Key Arena	1962/1994	na/74.5	17,100	data unavailable	None	WNBA Seattle Storm
Portland	Memorial Coliseum	1961	8.0	12,000	Ranges from approximate \$300k profit to \$300k loss	Rose Garden Arena (1995)	Portland Winterhawks (hockey)

Source: Johnson Consulting

### Case study 1: Renovation and continued use as an arena

U.S. Cellular Arena opened in 1950 as the Milwaukee Arena. It was the home of the Milwaukee Bucks NBA team, the Marquette University men's basketball team and the Milwaukee Admirals IHL team until 1988 when all three teams left for the newly built Bradley Center. The 12,700-seat U.S. Cellular Arena is attached to and a part of the Wisconsin Center convention facility and is owned by the Wisconsin Center District (WCD), a state-run authority. Other WCD venues include the Midwest Airlines Convention Center and the 4,000-seat Milwaukee Theater. The facility underwent a major \$10.5 million overhaul in 1998. Renovations included a new video scoreboard, refurbished seats, improved access for people with disabilities, wider concourses, improved concession stands, new floors and finished, new catwalks, better lighting, and improved HVAC. Additional improvements were made in 2000, including a new ice-plant, outdoor lighting, signage and electronic messaging systems. The exterior of the US Cellular Arena is also home to the Wisconsin Athletic Walk of Fame.



The arena is currently home to the University of Wisconsin-Milwaukee men's basketball team as well as the Milwaukee Wave, and professional indoor soccer team. In addition to its sports tenants, the venue continues to host a variety of concerts, family shows, and is used extensively as a large meeting and assembly venue for events hosted by the adjacent convention center. The three WCD venues are run by a full-time staff of 16. Resources are shared, therefore individual financial statements are not available for the individual venues. Over the past few years, the WCD has been operating at a \$12 million operating loss.

### Case study 2: District approach

The 74-acre Seattle Center is a mixed-use "urban park" which was created on the site of the 1962 World's Fairgrounds. In all of its components, the Seattle Center has twelve million visitors annually and generates \$1.15 billion in annual business activity. Its attractions include the 17,000-seat Key Arena, a 34,000 square foot exhibit hall, Memorial Stadium, several performing arts theaters, museums, restaurants, an indoor amusement park, a skate park, a monorail, gardens, fountains, and the signature Seattle Space Needle. The Seattle Center's public elements free public programs are supported by the Seattle Center Foundation, a 501 (c) 3 nonprofit organization. The Seattle Center is surrounded by three neighborhoods with a total of 46,000 residents. These neighborhoods have over 300 restaurants and bars that cater to visitors to the Seattle Center and add a local, historical flavor. Events at the Seattle Center include sports, concerts, festivals, theater and cultural events.



The Seattle Center overall is an adapted worlds fair venue, which has never worked as a gleaming sports and entertainment complex, even though its pieces and parts attract millions of visitors. The retail experience in the complex itself is average at best. The Space

Needle is the icon and the accumulation of attractions give it weight. It is a coincidence of timing that urban growth around the Queen Anne District happened. It was not a response to the “marvel” of this district.

The main sporting venue at the Seattle Center is the city owned and operated Key Arena. The venue was originally built for the 1962 Worlds Fair as the Washington State Pavilion. After the expo, it was remodeled and became the Washington State Coliseum. In 1994, the Coliseum underwent a major \$74.5 million renovation and, after a \$15 million naming rights deal, became the Key Arena. During the renovation, the event floor was lowered 35 feet to accommodate 3,000 new seats. Through 2008, the Key Arena was hosting an average of 160 events per year, including home games from its three major tenants, the NBA Seattle Sonics, the WBA Seattle Storm, and the WHL Seattle Thunderbirds. Other events included approximately 20 concerts, 15 family events, 5 other sporting events, and 10 miscellaneous events. 2007 Annual revenues and expenses were approximately \$5.1 million and \$3.3 million respectively, for an operating profit of \$1.8 million. In 2008, the Sonics moved their franchise the Oklahoma City, and in 2009, the Thunderbirds became the anchor tenant of the Showare Center in Kent, Washington. Despite the 1994 renovation, the size and amenities of the Key Arena are still not up the market standards. A 2006 Key Arena subcommittee report addressed this situation and recommended an additional \$200 million renovation to create a competitive and financially successful venue. This report is included as Appendix 4. This is the only major arena in the Seattle area.



The Key Arena has lost two major tenants. It is anticipated that weekend dates at the arena will be filled with other events, but that on weekday nights, which would have been otherwise filled with sporting events, the arena may sit dark. The future plans for the Key Arena are unclear at the present. The Seattle Center has experienced declining visitors and revenue and is currently operating at a deficit. A new master plan calls for a public/private partnership investment of \$674 million in the Seattle Center over the next 20 years. No specific funding plan has been put forward.

### Case study 3: Demolition

The Wachovia Spectrum opened in 1967 in Philadelphia, PA and was home to the Philadelphia Flyers NHL team and the Philadelphia 76ers NBA team. This privately-owned facility, at its peak, was the busiest arena in the country, hosting some 400 events each year. With the opening the adjacent Wachovia Center in 1996, the Wachovia Spectrum has continued to host concerts, college basketball, indoor soccer, arena football and a variety of other events. Since 1995, it has hosted an average of 125 spectator events each year and has netted \$2-3 million in operating profit annually. The Wachovia Spectrum and the newer Wachovia Center are owned and operated by Comcast-Spectacor. The two arenas share administrative, marketing, and public relations staff.



Later this year, the Wachovia Spectrum will host its final concerts and will be demolished to make way for a new mixed-use development. While the facility is not losing money, ownership feels that the building is at the end of its useful life and has noted increasing costs associated with simply keeping the facility up and running at the quality level expected by its patrons and tenants.

### Case study 4: Adaptive re-use

The Pyramid Arena in Memphis, TN was opened in 1991. The unique structure is modeled after the pyramids of Egypt, the city of Memphis’ namesake. It is the sixth tallest pyramid in the world. It was the home of the Memphis Grizzlies NBA team and the University of Memphis men’s basketball program. Both tenants left in 2004 when the FedEx Forum was opened, leaving the Pyramid without a tenant. The City of Memphis owns the arena and still owes approximately \$8 million on the note for the facility. The Pyramid has not hosted an event since 2007. Many businesses in the area surrounding the Pyramid have closed their doors leaving empty lots and boarded buildings. Many ideas have surfaced for the redevelopment of the venue, including a casino, an aquarium, and an indoor playground. Most promising is a plan to turn the Pyramid into a Bass Pro mega-store. The deal is not yet finalized but is



currently looking like a promising catalyst to help redevelop both the Pyramid arena and the surrounding community.

## CONCLUSIONS

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The Coliseum is a unique facility from an event marketing perspective; its uniqueness presents both opportunities and challenges for marketing and managing the Coliseum now and in the future:

- Portland's two-venue arena configuration (the Rose Garden paired with the Memorial Coliseum) is relatively unusual, especially among mid-sized markets.<sup>11</sup>
- Portland is an attractive market to event promoters, but may not be large and accessible enough to draw many major concerts or events.
- Seating capacity in the Coliseum is adequate for most arena productions, but may be seen by promoters as too large for some events and too small for others.
- As an older venue, the Coliseum does not have the level of finish and amenity that have become the standard of arena design since the Coliseum was constructed. At the same time, the unique design of Memorial Coliseum makes for an obstruction-free arena bowl and excellent sight lines that are attractive to promoters.

Especially given the challenges outlined above, this analysis shows that, while the Coliseum faces challenges with marketing, need for systems upgrades, and profitability, on the whole, the combined efforts of the City of Portland and PAM have maintained a facility that serves an important market niche for the region and could continue to do so more profitably in the future. This remains true even as many communities across the country are tearing down older arenas and replacing them with parking lots, newer arenas, or other types of redevelopment.

At the highest level, the results of this analysis do not limit the options for the Memorial Coliseum's future. The City and its partners could choose to renovate and continue to use the facility as an arena, re-use the facility for another type of public or private use, or demolish the facility and create something else in its place. The analysis does, however, provide better information about the barriers that might need to be overcome to achieve

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<sup>11</sup> Many larger cities have more than one arena, and in some cases (such as Philadelphia) the venues have operated as adjacent structures. However, as a mid-size market, Portland's situation is unique.

each of these options, and the results that the City and partners might expect.

Since all of these options remain viable, the challenge before the City is to find the option that leverages the greatest benefit to the Rose Quarter, City partners, and residents.

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