# PORTLAND CITY COUNCIL LACKED DATA ON INVESTORS' STADIUM-DEAL PROFITS

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A pie chart that ran as part of a graphic accompanying an Aug. 26 story on the Portland Civic Stadium deal showed projected expenses only for the renovation of the stadium. In addition to $4 million for renovation, Portland Family Entertainment is also projected to spend $18.3 million on franchise acquisitions and start-up costs.

- Readability: 11-12 grade level (Lexile: 1280)

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Summary: A confidentiality agreement keeps commissioners from knowing the high estimates before they OK the deal

When the Portland City Council unanimously approved the outline of a deal July 7 to turn Civic Stadium over to private investors, the council didn't know how much money the investors could expect to make.

Projections made by city staff showed returns to Portland Family Entertainment averaging 55 percent a year during the deal's 20-year life. Other calculation methods investors commonly use show annual returns of 32 percent to 38 percent -- far higher than other recent public-private deals.

But the council never discussed those projected profits before it approved the plan, which requires $33 million in public debt to renovate the stadium.

A confidentiality agreement signed by Mayor Vera Katz kept the council, including the mayor, from seeing financial documents submitted by the investment partnership, the city staff's analysis of those documents and a city consultant's reality check on the partnership's projections.

The details about potential profits for PFE and the scope of the confidentiality caught council members unaware this week when The Oregonian gave them the information.

"I knew that there was a confidentiality agreement, but I never had a sense that we couldn't see important information," Commissioner Erik Sten said. "There's no point in having a council if we don't have access to key documents."

Katz stressed that the final contract was far from being signed and that the negotiators needed confidentiality to pry more concessions from the investors. But not disclosing the returns to the council before the July vote is "a legitimate issue," she said.

She has called a closed session of the council for this afternoon to discuss the deal.

"I want to talk with them about" the confidentiality agreement, she said. "The question is, can we continue doing business with private partners without that?" She said she also wanted to make sure council members were still comfortable with the deal.

City officials and consultants said the confidentiality agreement enabled them to get the financial information they needed from PFE to cut a strong 20-year deal to renovate the stadium and turn over operations to PFE. Without those details, said attorney Steve Janik, who represented the city in negotiations, "we would have been groping in the dark."

Sten and Commissioner Charlie Hales' office said the projected profits seemed excessive, though no council members talked of killing the deal. City officials defend the returns as reasonable given the risk.

Before and after the July vote, the city refused The Oregonian's request for the documents and city analysis, citing the confidentiality agreement and protection of trade secrets. The city turned over the records last week after District Attorney Michael Schrunk ordered their release.

PFE is led by former Trail Blazer executive Marshall Glickman and Mark Gardiner, a former finance director of the city of Portland. Its limited partners include 16 private investors, including some of Portland's wealthiest businessmen, such as shipbuilder Jay Zidell; Peter Stott, president of Crown Pacific; and construction executive Peter Hoffman.

The city's projections are largely based on numbers PFE supplied in March. But Glickman, son of Portland Trail Blazer founder Harry Glickman, stressed this week that they are the city's numbers and don't reflect changes in PFE's financial plans.

"It's a good deal, but not that good," Glickman said. "If it weren't for the civic-mindedness of our investors, they wouldn't have made this investment."

Terms of agreement

The deal calls for the city to pick up 90 percent of the costs of the $37 million renovation, including building 32 luxury suites in the 73-year-old stadium just west of downtown. In return, the city gets license fees that begin at $908,000, a cut of gross revenues and ticket sales, and a quarter of PFE's profits starting in 2001.

For the first six years, the payments from PFE wouldn't be enough to cover the city's debt payments, according to city projections. The difference would come from a planned increase in taxes on lodging and car rentals. By 2007, the projections say, the city would start making money.

In addition to the $4 million investment in stadium renovation, the deal requires PFE to raise $6 million from the limited partners and borrow money to buy a minor-league soccer team and a Triple-A baseball team. In addition, PFE agreed to buy the Portland Rockies, the city's single-A baseball team. PFE already has bought the Rockies; it announced Wednesday that it had bought the Triple-A Calgary Cannons, with plans to move the team to Portland.

Whether the projected returns to PFE are accurate rides on the realism of the city's assumptions. PFE expects to draw crowds comparable to recent attendance figures for minor-league sports in Portland, the largest market in the United States without a major-league baseball franchise.

Two-thirds of PFE's revenues depend on the success of Triple-A baseball, which has bailed out of Portland twice before, most recently in 1993. The projections count on the Cannons, now mired in last place, to attract the same 6,500 fans for 72 home games that the Portland Rockies claim to draw in a 36-game schedule that avoids the often chilly nights of April and May.

Another unknown is the potential for luxury suite sales. In another document the council did not see, the consultants estimate that PFE will get $25,000 for most of its boxes and $42,000 for four suites behind home plate.

That would be at the high end of Triple-A baseball suites, though Glickman notes that the suites will be good for concerts, soccer and Portland State University football, not just baseball games. When the Rose Garden opened in 1995, the Trail Blazers charged between $60,000 and $90,000 a year for suites.

As for expenses, the partnership surrendered only enough detail for a sketchy analysis of its costs. Early returns If the deal flops, the city would be on the hook for the debt payments; the hotel-motel taxes and a cut of proceeds from sales of the teams would help cover the debt. The teams would also have to stay in Portland. PFE's partners would be out their $6 million investment for teams, unless selling the teams recouped the money.

If the projections do pan out, PFE will earn $71.4 million on its $6 million investment in teams during the 20-year period. The city would run deficits for the first six years but would make as much as $19.5 million by the end of the contract. According to the Minneapolis-based consulting firm CS&L International, the city's cash flow makes the deal one of the three most lucrative involving Triple-A teams.

City Commissioner Jim Francesconi, who focused on the investors' profits the most during council discussions, is on vacation this week and was unavailable for comment. Commissioner Dan Saltzman said he didn't have enough information about the risk of PFE's investment to evaluate the returns.

Sten focused on the first six years of the deal, when the city projections show the city's debt payments exceeding the money coming in from PFE. The numbers argue for the investors putting more toward stadium renovation upfront or providing more of a guaranteed return to the city, Sten said.

The biggest deficit is in the deal's second year, when PFE's investors are projected to make $2.3 million in profits while the city pays $894,000 on its renovation debt.

"I think at heart this is a pretty good deal," he said. "But I don't think they should make that much of a return while we're losing money."

Hales is also on vacation this week. Ron Paul, his chief of staff, said he was not convinced that PFE's risk is that high, given the public's $33 million investment in the stadium renovation. The investors' money is also backed by the value of Triple-A teams, which have recently been appreciating rapidly.

Although the council offices differed on the reasonableness of the projected returns, they agreed that they should have known about them beforehand.

"Negotiations like this need to be conducted carefully," Paul said. "But at some point the principals who make the decisions need to be given all the information. This confidentiality agreement does not accomplish that." Negotiating team excluded Before the vote, city officials and Janik, the city's outside attorney on the deal, met twice in closed session with council members.

Tim Grewe, director of the city's Office of Finance and Administration, said his recollection was that he told the council that the returns were similar to those in the stock market. A CS&L representative assured council members that the returns were reasonable compared with other sports teams. And Janik said that he talked about returns in the 30 percent range but that he couldn't remember whether that was in the closed sessions or in individual meetings with council members.

Grewe and Janik acknowledged that they couldn't talk in detail about the projected returns, even in the closed sessions, because of the confidentiality agreement signed in March.

That agreement allowed PFE to define documents it submitted as confidential. It limited the release of those documents to Linly Rees, Katz's project manager on the deal; Grewe; Janik; CS&L; and four other city officials.

It did not include the council. It also did not include noncity members of the city's six-member negotiating team, which included two people from neighborhood groups and two representatives of the Metropolitan Exposition-Recreation Commission, the current operator of Civic Stadium.

Katz said she knew of the returns only in the deal's first year, but that prompted her to demand that the city participate in PFE's profits.

Janik, who has negotiated other stadium deals, including a new publicly financed stadium for the Seattle Seahawks, said the list was kept short on purpose.

"You know as a matter of the human condition," he said, "if you tell a secret to 20 people rather than one, you probably multiply the odds by 20 that the information is going to be disclosed."

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- Caption: Graphic -- Chart by MICHAEL MODE - The Oregonian -- CIVIC STADIUM DEAL - Who spends what, What the city gets, What PFE gets... < (LIBRARY NOTE: To view complete text see the bound volume, Oregonian microfilm or graphics notebook located in the Library. Copy was not sent to the Library computer.)

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