



March 6, 2012

Entertainment & Sports Complex

Partners, Terms and Finance Plan, Parking
Monetization, General Fund Backfill, Next Steps



The City's ESC Partners

- ICON Venue Group
 - *Development Consultant*
- David S. Taylor Interests
 - *Development Consultant and Parking Garage Developer*
- Populous
 - *Architect*
- Turner Construction
 - *Builder*
- AEG Facilities (AEG)
 - *Operator*
- Sacramento Kings/NBA
 - *Long-term ESC Anchor*

Presentation Outline

- Term Sheet and Financing Framework
- City's Capital Contribution
- General Fund Backfill
- Treasurer's Options and Risk Analysis
- Timeline and Next Steps

Review of Term Sheet

Dan Barrett

Barrett Sports Group

**CITY OF SACRAMENTO
SACRAMENTO ENTERTAINMENT & SPORTS COMPLEX
TERM SHEET – OVERVIEW**



**PREPARED BY:
BARRETT SPORTS GROUP, LLC
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I. TERM SHEET – OVERVIEW

Parties

- City of Sacramento (City)
- Sacramento Kings, LP (Kings or Team)
- ICON Venue Group, LLC/David S. Taylor Interests, Inc. (ICON/Taylor)
- AEG Facilities, LLC (AEG)

Ownership

- ESC shall be Owned by the City

I. TERM SHEET – OVERVIEW

Sources/Uses of Funds – Detail

Sources of Funds		
Capital Contribution - City/Other		\$255,525,000
<i>Capital Contribution - City</i>		\$250,525,000
Parking Public-Private Partnership (P4)	\$230,000,000	
Parking Infrastructure Fund	\$1,500,000	
City of Sacramento Land Sales	\$18,025,000	
Sales Tax Construction Rebate	<u>\$1,000,000</u>	
<i>Capital Contribution - Other</i>		
MOPA Funds		<u>\$5,000,000</u>
Capital Contribution - Capital Campaign		\$3,000,000
Capital Contribution - Sacramento Kings		\$73,250,000
Capital Contribution - AEG		\$58,750,000
Sources of Funds - Total		<u>\$390,525,000</u>
Uses of Funds		
Start-Up Expenses		\$2,500,000
Sales and Marketing		\$850,000
ESC Land Acquisition		\$18,917,543
ESC Site Development		\$3,150,000
Design and Professional Services		\$17,825,959
Legal and Governmental Services		\$1,100,000
Project Administration		\$14,094,973
Construction		\$257,836,846
Systems and Equipment		\$30,200,000
Permits, Testing, Fees, Taxes, and Special Assessments		\$16,135,980
Insurance, Financing, and Transaction Costs		\$9,500,000
Owner Contingency		\$18,409,688
Uses of Funds - Total		<u>\$390,520,988</u>
Surplus/(Deficit)		\$4,012

I. TERM SHEET – OVERVIEW

Development

- City will Lead the ESC Development and have Final Decision Making Authority
- Parties shall Cooperate and Work Together
- Parties Must Approve ESC Program/Design and Other Project Elements

Schedule

- Parties shall Work Together to Open the ESC by September 2015

Pre-Development Expenses

- City 50%
- Kings 25%
- AEG 25%

I. TERM SHEET – OVERVIEW

Completion Guarantee and Cost Overruns

- Turner Construction to Provide a Project Completion Guarantee and Cost Overrun Protection – Subject to Negotiation and City Approval
 - ✓ Design
 - ✓ Construction
 - ✓ Furniture, Fixtures, and Equipment (FF&E)
 - ✓ Commissioning

- Cost Overruns (if Any) Associated with Items Not Covered by Turner Contract shall be the Responsibility of the City
 - ✓ Land Acquisition
 - ✓ Project Management Fees
 - ✓ Permits/Fees

- Program Change Orders that Result in Additional Costs shall be Paid for by the Party that Requests the Change

I. TERM SHEET – OVERVIEW

Non-Relocation – Kings

- Kings will Play Home Games at ESC for 30 Years
- Kings will Enter Into a Binding and Enforceable Non-Relocation Agreement

Management – AEG

- AEG shall Manage the ESC for a Minimum Term of 30 Years
- AEG shall Manage and Operate the ESC in a First Class Manner

I. TERM SHEET – OVERVIEW

Ticket Surcharge

- AEG shall Charge a 5.0% Ticket Surcharge on All Events
- Ticket Surcharge Applied to all Tickets Sold, Excluding Luxury Suites
- City shall Retain All Revenues Generated by Ticket Surcharge, Except as Provided Herein
- Ticket Surcharge Revenue is Estimated as Follows

Ticket Surcharge	
Kings - Total	\$2,786,660
Less: Luxury Suites	\$143,314
Kings - Total (Adjusted)	<u>\$2,643,346</u>
Non-Kings Events - Total	\$1,101,310
Ticket Surcharge - Total	<u>\$3,744,655</u>

I. TERM SHEET – OVERVIEW

Agreement with AEG/Kings

- AEG/Kings shall Enter into MOU by April 15, 2012 – Principal Terms:
 1. Kings Retain All Revenues Relating to Kings Events and Team Operations
 2. Kings Retain 100% of Concessions and Merchandise During Kings Events
 3. Premium Seating Split 50% / 50% – Kings Retain Ticket Revenue
 4. Naming Rights and Arena Signage Split 50% / 50%
 5. Kings Responsible for Game Day Operating Expenses

I. TERM SHEET – OVERVIEW

Parking – City Owned/Controlled Garages and Lots

- Kings shall Retain Net Parking Revenue for Kings Events (Excluding County Garages/Lots)
- City shall Retain Net Parking Revenue for Non-Kings Events
- Revenue Sharing Provision and \$2.6 Million Benchmark – Not a Guarantee

Property Taxes

- AEG shall Pay Any and All ESC Property Taxes
- Kings shall Reimburse AEG for 50% of Any Property Taxes

I. TERM SHEET – OVERVIEW

Annual Operating Expenses

- AEG shall be Responsible for All ESC Annual Operating Expenses

Capital Repairs Fee

- AEG shall Charge a \$1.00 per Ticket Capital Repair Fee on All Paid Tickets
- Capital Repair Fee Subject to Annual Escalation

Capital Repairs Reserve Fund

- Capital Repair Fee Revenue to be Deposited into the Capital Repairs Reserve Fund

I. TERM SHEET – OVERVIEW

Capital Repairs

- AEG Responsible for ESC Capital Repairs
- AEG Required to Maintain the ESC in a First Class Manner
- Capital Repairs shall be Paid Out of Capital Repairs Reserve Fund
- Capital Repairs Reserve Fund Shortfalls (If Any) to be Paid as Follows:
 - ✓ City 50%
 - ✓ AEG 50%

Municipal Services

- Kings to Pay All Costs Incurred by City for Municipal Services for Kings Events
- AEG (or Event) to Pay for All Costs Incurred by City for Municipal Services for Non-Kings Events

I. TERM SHEET – OVERVIEW

Operating Profit Allocation (Waterfall)

- City Share of ESC Operating Profits

	<u>City Share</u>
First \$10.0 Million	15%
Next \$5.0 Million	30%
Remainder	50%

- *City Share Estimated at \$800,000 to \$1,200,000 Per Year*
- *AEG Responsible for Operating Shortfalls (If Any)*

I. TERM SHEET – OVERVIEW

Premium Seating Parking

- City Required to Provide a Parking Structure for Premium Seat Holders (Minimum 1,000 Spaces)
- David S. Taylor Interests, Inc. and CIM Group (Taylor/CIM) Agreed to Finance and Construct Parking Structure
- Project Funding May Include Up to \$14.5 Million in MOPA Funds – Gap Funding
- Balance of Project Funding to be Provided by Taylor/CIM
- Agreement will Include Profit Sharing Provision

I. TERM SHEET – OVERVIEW

1997 Lease Revenue Bonds

- City and Kings shall Retire 1997 Lease Revenue Bonds
- City to Issue New Bonds to Retire 1997 Lease Revenue Bonds
- Kings shall Pay Debt Service Associated with New Bonds
- Kings to Pay Debt Service Regardless of Labor Disturbance (Strike/Lockout)
- Kings shall Provide Sufficient Security and/or Collateral to Satisfy City

I. TERM SHEET – OVERVIEW

Natomas Land Use Entitlements

- City and Kings to Remove Existing, Mutual Land Use Restrictions on 185 Acres
- City to Expedite Process for Obtaining “Highest and Best Use” Land Use Entitlements
- City and Kings to Consider Joint Planning, Entitlement, Land Sale, Marketing, Cost and Revenue Sharing Agreement – Net Proceeds to be Allocated on Pro Rata Basis

City ESC Capital Contribution

Source	Amount
Parking Monetization	\$230 million
Land Sales	\$18 million
✓ MOPA Funds (Sheraton Proceeds)*	\$5 million
✓ Parking CIP Fund*	\$1.5 million
✓ Construction Sales Tax Capture	\$1.0 million
TOTAL	\$255.5 million

* Source of City predevelopment funding obligation

Predevelopment Funding Sources

- Pays for planning, design, engineering and environmental review needed for start of construction
- 50-50 split between City and private partners

Predevelopment Sources	Amount
Sacramento Kings	3,250,000
AEG	3,250,000
City-Taylor MOPA	5,000,000
City Parking CIP	1,500,000
Total	\$13,000,000

Parking Monetization

- Parking monetization as City investment tool
 - Borrows from one City asset
 - Invests in new City-owned asset
- City utilizing best practice approach
 - Internal City parking financing analysis
 - Concurrent competitive RFP process
- Benefits of a dual-track approach
 - Internal analysis establishes a benchmark
 - Compares benefits and drawbacks with the different approaches
 - Identifies and answers questions crucial to a successful outcome

Parking Monetization

- Purpose of RFP process is to find best fit for City
 - Competition enhances ultimate outcome
 - Provides City with choices
 - 11 Qualified Bidder Teams
 - Three approaches among the teams
 - Traditional concession model
 - Lease-leaseback model
 - Sell-buyback model using an established parking authority

Parking Monetization

- Internal City/Public Sector Model
 - Similar to Sheraton Hotel Financing
 - Non-profit corporation
 - Own and operate the parking with a buy-back provision
 - Parking and other revenue streams would support debt
- Trade-off between cost and risk
- Next steps
 - 3 Stage RFP Process: Launch 1st stage
 - Cost-efficient process to determine best fit

Land Sales

Land Sales	Revenue Mid-Range (Likely)*
City Natomas Stadium Parcel (100 acres)	20,000,000
<i>Actual City ESC Contribution</i>	<i>18,000,000</i>
Net Revenue	\$2,000,000

Potential Additional Sites	Revenue Mid-Range (Likely)*
Lot X (City portion) at Capital Mall & I-5	6,600,000
9472 Rogers Road	200,000
60 acres at Haggin Oaks Golf Course	3,900,000
Total	\$10,700,000

* Source: EPS, Integra Realty, CBRE

General Fund Backfill

Annual Revenue Sources	Construction Period (2.5-Year Period)	Post-ESC Completion*
City Parking Revenues from Non-King Events		965,000
Ticket Surcharge on King Events		2,640,000
Ticket Surcharge on Non-King Events		1,100,000
ESC Generated Possessory Interest Tax – City		850,000
Property Taxes Paid by the New Premium Parking Facility – City		50,000
ESC Taxes (Sales/Utility User) – City		300,000
City Profit from ESC Operations		1,000,000
Digital Signage		200,000
Parking System Operations (Revenue Sharing)		1,895,000
Parking System Capital (over 2.5 years)	22,500,000	-
TOTAL	\$22,500,000	\$9,000,000

* Figures reflect most likely scenario (midrange of estimate)

Evaluation Criteria

- Balance
 - Risk
 - Cost of capital: term and discount rate
 - Upside potential
- Key metric – long term sharing of cash flow
 - Walker model and other projections show positive net cash flows growing over time
- City share of net cash flow
 - Upfront payment
 - Residual net cash flow

City Options and Risk

- Financial Performance
 - General Fund and Other Fund impacts
- Credit Risk
 - Future borrowing
 - Credit capacity
 - Cost of borrowing
 - Credit Rating
- Reputational Risk
 - Ability to engage financial partners

Timeline and Next Steps

Date	Milestones
March 2012	Proceed with Parking Monetization RFP Phase 1 Prepare predevelopment agreements
April 2012	Predevelopment Work Commences <ul style="list-style-type: none">• Environmental Review• Site and Building Design
June 2012	Complete Program Design
April 2013	Project Review and Approval <ul style="list-style-type: none">• Complete ESC Design• Environmental Review Complete
April 2013	Complete Financing for All Contributions
April – June 2013	Start Construction
August 2015	Complete Construction
Sept./October 2015	Grand Opening



Entertainment & Sports Complex

