

THE NEXT STEPS

Sacramento First Analysis of Projects Presented January 6, 2011, and Follow-Ups

Executive Summary

Overview

Acknowledging the significant challenges facing the development of an Entertainment and Sports Complex (ESC) in Sacramento, combined with the community's desire for a transformative project that provides economic vitality and cultural revitalization to the community, the Sacramento First Task Force has analyzed and ranked four ESC proposals for review and consideration by the Sacramento City Council.

In offering the following analysis, ranking and information, the Task Force wants to underscore that the material presented below reflects important public policy decisions that ultimately must be made by the Mayor and City Council, and that the Task Force is merely providing a report based on input received from the public, the submitted proposals and the Task Force's own collective expertise.

The ranking is consistent with the "Rules of the Game" as established by Mayor Kevin Johnson in October 2009, and follows "The Critical Path Report" issued by the Task Force in March 2010.

Mayor Johnson's Rules of the Game have served to guide the work of the Task Force throughout its processes. The Rule of the Game are as follows:

- The Taxpayers Come First
- The City Will Not Be Used as Leverage
- The City Will Negotiate on Even Terms
- We Must Think In and Out of the Box

"The Critical Path Report", which was released in March of 2010, was the direct product of a public hearing process conducted in 2010, including:

- Eight public events in venues throughout the City designed to engage the residents of Sacramento in a conversation, including a Town Hall, a review of successful event facilities around the country, a discussion of the Sacramento economy with focus on the construction industry, an analysis of transportation issues and community benefits packages.
- Experts recruited from around the country for public input.
- Design and launch of a website for public access to material submitted to and developed by the Task Force.
- Establishment of a space at the Sacramento Public Library to make documents available in "hard copy" form.
- One public meeting to introduce seven proposals submitted under a "Request For Offerings."
- Publication of the Threshold Economic Report.
- Meetings with representatives of the Federal Government, specifically HUD, DOT and EPA.
- Release of the Core Principals Report, reflecting what the Task Force learned from public discussions.
- Two public sessions with development teams presenting proposals to Task Force members.

- Establishment of four subcommittees on Finance, Transportation, Site Suitability and Arts, Business and Community to engage in intensive analysis of proposals.
- Development and application of a comprehensive scoring system for review of the seven proposals.
- Investment of more than 1,000 volunteer hours among the Task Force, pro bono professional advisors and a Board of Advisors, for analysis and review.
- Publication in March of 2010 of the final “Critical Path” report.

Following the issuance of “The Critical Path Report,” the City entered into an Exclusive Right to Negotiate (ERN) agreement with the Convergence Group led by Gerry Kamilos. The Convergence team included Sacramento developer David S. Taylor, the National Basketball Association (NBA) consultant John Moag and other companies.

The “Rules of the Game” declaration, followed by the Task Force public hearings that led to the creation of “The Critical Path Report,” and concluding with the ERN between the City and Convergence, all provided valuable learning tools for the citizens of Sacramento. Today, while the City obviously does not have an ESC project ready to break ground, the community without question has a better understanding of the criteria that should be applied to identifying an appropriate ESC proposal that would provide maximum economic impact to the community, and the financial hurdles that must be overcome before a project can move from concept to concrete.

As discussed more fully in this report, the Task Force was fully aware that the Convergence proposal faced serious challenges, including the issue of a multi-parcel land swap involving state owned property in the context of a highly truncated time frame. However, because of the limited financial exposure to the City in pursuing the proposal and the potential to develop a project with minimal public support, Convergence was deemed worthy of pursuing, especially given the strong support and endorsement it received from the NBA. Nonetheless, mindful of the challenges, the Task Force established a clear series of guidelines so the City could determine whether Convergence could transition from concept to reality.

To that end, in the 2010 ERN process between the City and Convergence, a highly detailed schedule and timeline was established, along with financing goals linked to benchmarks and milestones. The concept and goals were identified, and the team began to work with the City toward moving its dream to reality.

At the conclusion of the ERN period it became apparent that, owing to the complexities and multi-layered thresholds demanded of the project, Convergence could not be brought to fruition despite the most diligent and optimistic work by Mr. Kamilos and his team.

In keeping with the “Rules of the Game,” up to this point in time this process has come at no direct cost to the taxpayer.

In light of these developments, in November 2010, Mayor Johnson requested the Task Force solicit updates of the leading proposals as identified by “The Critical Path Report,” solicit any new proposals and reconvene. On December 30, 2010, the Task Force received four proposals for review.

The following constitutes the Task Force's recommendations with regards to Next Steps, including the: (I) reiteration of the core goals for an ESC project; (II) outlining of Three Phase Action Plan; (III) ranking of the ESC proposals and (IV) analysis of the proposals.

I. Core Goals

In reconvening and reviewing the updated proposals, the Task Force is continuing to base its analysis on input from the public. To this point, "The Critical Path Report" identified the community based criteria to be applied by the Task Force, including:

- (1) The stipulation that Sacramento was not interested in the development of an ESC involving a meaningful level of public support exclusively to the benefit of a professional sports franchise. Instead, the community was interested in the development of an ESC that would represent the best interests of the entire region;
- (2) The understanding that while an ESC would likely require some forms of public support, it could not be developed on the basis of the imposition of a specific community-based tax on the people of Sacramento (i.e., a sales tax), though certainly other forms of revenue derived from public sources was identified (i.e., land, infrastructure support, tax increment financing, parking revenue, car rental or other tourism based fees; etc.);
- (3) The recognition that if there is to be a meaningful level of public support (such as the contribution of land), jobs creation and economic development must serve the essential goals of a new ESC; and
- (4) The belief that the development of a facility in the "downtown" section of Sacramento integrated with the intermodal facility constitutes the greatest chance to economically transform the City, as has been demonstrated in various cities across the country.

This "Next Steps Report" is informed by the process the City undertook over the last ten months in considering the Convergence proposal, as well as lessons observed from successful projects around the country and lessons learned by Task Force members from their involvement in other successful ESC projects in California and elsewhere.

The Task Force commends both the City and the Convergence team for committed and dedicated efforts to determine whether Convergence, as proposed in 2010, was feasible. The merits of the Convergence as presented in 2010 were clear: extremely limited public support, a well-established team and the support of the Sacramento Kings and NBA. The challenges were similarly clear: the ability to execute upon a multiple land swap concept involving the state-owned fairgrounds within a limited state legislative calendar. Given the positives, the Task Force conferred a top ranking for the Convergence Project in 2010 but, mindful of the challenges, suggested a defined time period and series of metrics to establish whether the project could move forward. The Task Force indicated this approach was based on other ESC experiences in California and around the country, where the development of successful ESC projects tended to be multi-year, evolutionary processes in which each step informs the next step, and where the ultimate ESC does not necessarily resemble the original agreement.

Events centers are challenging projects in the best of times. They are inherently challenging in California. And, given the national economic condition, it is especially challenging to develop a feasible project in California absent the recognition and understanding that the job will be a triathlon – perhaps even an ultra-marathon – rather than a sprint. However, consistent with the suggestions outlined in this report, the Task Force does believe that Sacramento can develop a world-class ESC that will be transformative for the City.

II. Three Phase Action Plan

The rankings contained in this "Next Steps Report" apply criteria laid out in "The Critical Path Report", considers testimony and materials from a Sacramento First Task Force public hearing on January 6, 2011, during which all four proposal updates were examined, and in follow-up meetings on January 12 and 14, conducted with the four proposal teams by Task Force members. Finally, the ranking is informed by the experience of the 2010 ERN exercise between the City and Convergence development group.

Consistent with the core goals of developing an economically transformative project that will create jobs and benefit the entire community while protecting taxpayers, the Task Force believes the appropriate "Next Steps" toward the potential development of a new ESC should follow a three-phase process, where the City will **only** move from one phase to the next if the requirements of each phase are met:

- First, in **Phase I**, the Task Force believes the City will greatly benefit by identifying one proposal to work with to determine if an ESC, consistent with the established criteria and challenges of our times, is indeed feasible.

To date, the process has benefited from four quality proposals by four quality teams committed to moving the City forward. Each team has demonstrated a well-conceived approach, a track record of success and provided a distinct vision and approach. Accordingly, each project meets the threshold of reflecting a seriousness of purpose and potential feasibility.

However, given the importance of determining whether there is a feasible proposal that could generate jobs and economic development, and considering the limited resources of time, money and personnel capacity from which the City could draw to review a proposal, plus the ability of any one proposal to be in position to provide critical information on such issues as financing, the City may wish to consider picking a single proposal.

Picking a single proposal for a comprehensive review will assist the City's ability to determine whether the proposed ESC is feasible, or, if not feasible, to make real progress on the requirements for a feasible ESC. The Task Force has provided a specific ranking based on the application of the publicly established criteria. Of course, the Task Force understands that acceptance of the ranking is ultimately the decision of the City of Sacramento.

- Second, in **Phase II**, the City could consider engaging in a clearly defined review process undertaken by the City Manager's office for a period of 120 days to determine whether the project meets the standard of demonstrating a real promise of feasibility; of, if not, what would be required to render a project feasible.

This review process, utilizing one specific proposal, would enable the City to conduct a rigorous, professional analysis to determine the overall feasibility of an ESC project in Sacramento.

The City Manager's Office would produce a finding to the City Council as to whether the particular proposal is feasible and, if not, what would be needed for a viable proposal consistent with established criteria.

In addition, if progress is made on one specific proposal, the City and development team will need to engage in discussions with the Sacramento Kings and/or the NBA to determine whether there will be a commitment by the team/League in recognition of any commitment the City would make. In the event the team and/or NBA is not willing to make such a commitment in the context

of an ESC proposal determined by the City as being feasible, the City will need to consider how it will seek discharge of the approximately \$70 million the franchise currently owes the City.

- And, in **Phase III**, there should be a determination that the selected ESC project is feasible to enter into the equivalent of an Exclusive Right to Negotiate (ERN) for a defined time period to establish whether a final agreement is possible. The ERN process is critical to providing the structure necessary for obtaining financial, land use and other information required to move a project forward from design to construction.

III. The Rankings

Consistent with the established core goals and within the scope of its charge to provide objective analysis to the Mayor and City Council on issues relevant to the development of a transformative ESC project, the Task Force respectfully submits the following project rankings:

1. ICON Taylor

The City is fortunate that one of the nation's most respected firms in the discipline of sports and event center project development, ICON Venue Group, has offered to pursue Sacramento's project feasibility at no cost or obligation to the City for 90 days. While the Taylor ICON affiliation was formed in December 2010 and presented to the Task Force without having sufficient time to produce a comprehensive submittal, the Taylor ICON group must be acknowledged for its expertise not only in the field of ESC project management but in the development of major projects in downtown Sacramento (David S. Taylor), plus international experience in architecture and design (Populous) and construction (Turner). As the Task Force believes that no ESC project can move forward, much less hold a reasonable hope for success in Sacramento, without a credible feasibility study, the opportunity to activate the expertise of ICON Taylor for 90 days, within the 120 day Phase I window (as outlined above), at no risk to the City represents a significant opportunity for the City to determine whether this proposal is feasible and, if not, which (if any) project would be feasible.

2. C.O.R.E.

The C.O.R.E. team, in similar respect to Taylor ICON, has given priority to first establishing the overall feasibility of an ESC project, regardless of location or developer. While lacking the sports and events center project management expertise of ICON, the team is sufficiently experienced in major-project development to objectively work with the City determine whether an ESC would be viable, either at the Downtown Plaza or rail yards. The critical difference between C.O.R.E. and Taylor ICON is the discipline-specific expertise of the Taylor ICON team.

3. Convergence

While the Task Force has applauded the enthusiasm of proposal developer Gerry Kamilos, and has noted the experienced team created by Mr. Kamilos, significant questions remain regarding the essential viability of Convergence, including financial models and components dependent on state legislation and approval by the Cal Expo board of directors. Moreover, the departures of John Moag and David S. Taylor and withdrawal of the Kings/League's support from the Convergence alignment do not create an atmosphere of confidence surrounding Convergence, following the project's inability to meet minimum thresholds during the exclusive contract period with the City in 2010. The

Convergence team's effort has contributed enormously to the community's understanding of how a project of this nature can succeed.

4. Natomas ESC

Natomas continues to impress the Task Force with its visionary proposal for the infill opportunities presented by the current Arco Arena and adjacent city property. The Task Force also appreciated Natomas' response to inquiries calling on the Natomas team to provide the economic development public policy rationale for its proposal as it relates to the publicly-identified goal of developing an economically transformative project in the downtown area. While there are many questions about the feasibility of the financing plan as identified by the Natomas team, the thoughtful approach and attention to detail indicates a highly professional, experienced development group well positioned to establish project viability and next steps for its proposal. The critical differences between Natomas and the top rated proposals are three fold: (1) the uncertainty of community-wide economic impact represented by a Natomas project in terms of being a truly transformative economic opportunity for the City, especially in comparison to a downtown-intermodal integrated approach; (2) the lack of any demonstrated support from the Kings and NBA for the type of approach projected by Natomas ESC and how that absence of support relates to concerns about whether the financing plan, however smart, would meet requirements necessary to attract an anchor tenant; and (3) whether an ESC would serve as the best use of public properties in the Natomas community. It must be underscored that the No. 4 ranking is not a reflection of the proposal, which was superior to the others in many respects, but rather a response to the criteria issued and specifically the core goal of an economically transformative project in the downtown area. As noted elsewhere in this report, the criteria reflect public input expressing “the desire for a truly transformative project for the entire region.” In any event, the Task Force recognizes the responsibility of the City Council to make any final decisions on City public policy matters of this magnitude.

Background

The Sacramento First Task Force, a committee of citizens appointed in November 2009 by Mayor Kevin Johnson to assist the city's drive for a new Entertainment and Sports Complex (ESC), held a public hearing Thursday, January 6, 2011, at the Historic Chambers of Old City Hall in Sacramento to receive updates on four ESC proposals.

Task Force members present were co-chairs Lina Fat and Chris Lehane, Tom Friery, Mark Harris, Matt Kelly, Dea Spanos Berberian and Ron Tom. Absent was Dorene Dominguez.

Since the Task Force had last reconvened, four original Task Force members have resigned to engage on the proposal side. Larry Kelley and Mike Kvarme joined the C.O.R.E. team, while Dan Meis and Adam Mendelsohn joined the ICON Taylor team.

Three proposals incorporated updates from the leading ESC concepts as rated by the Task Force in its “Critical Path Report” of March 2010. Those proposals were “C.O.R.E.,” “Convergence” and “Railyards.” The fourth proposal involved an updated submittal from Natomas ESC Partners.

This report will serve as the Task Force's analysis of the four updated proposals, based on material and

testimony submitted by the individual development teams and subsequent questions asked by Task Force members. Supplemental information was gathered during follow-sessions conducted January 12 and 14 with the four development groups. Task Force Members Friery and Tom conducted the follow-ups, along with Task Force Members Dominguez (January 12) and Kelly (January 14). The follow-up meetings were conducted in one-on-one sessions with the development teams and were informal in nature. The follow-ups were highlighted by nine general questions, which formed the basis of conversations.

The nine questions were:

- 1, Have you had discussions with the NBA and what if any were their response to your project?
- 2, Have you had any discussions with the Maloof Family or their representatives regarding the arena or the financing plan you envision? What was their response if any?
- 3, Have you met with City Staff regarding your project? Generally, what was their response?
- 4, A) Has your team formally or informally developed each of your duties and responsibilities for this project? B) What are they? C) What are your programmed steps in proceeding with the project?
- 5, A) What is the financing plan you are planning to proceed with? B) Do you have any secured equity capital? C) How much?
- 6, A) Can you meet the time lines you have indicated in your first report for this project? B) If the City has a shorter time line in mind, could you accomplish most of your objectives?
- 7, What do you think are the greatest challenges, and potential deficiencies you believe exist for this project? How do you intend to address them?
- 8, Does your financing proposal contemplate tax increment funding, whether in the form of a direct tax or an indirect tax such as TOT, rental car assessment, etc.?
- 9, Does your financial proposal contemplate a public/private partnership in which the City would contribute something of value such as land, redevelopment funds, etc.?

The Task Force presented the questions as guideline indicators for the follow-up discussions that were held with each development team, which, by their definition, resulted in free flowing, back and forth dialogues. The Task Force reports that the four teams were extremely open and responsive to the questions.

The Task Force respectfully submits this analysis to the Sacramento City Council in hopes of assisting and expediting the City's internal review process while the city moves into the next phase of its exclusive negotiations with one or more of the proposed ESC development groups.

Please note that as the January 6 hearing focused on updated proposals previously analyzed by the Task Force in the "Critical Path Report," this analysis will concentrate on new details and will not re-evaluate threshold issues addressed in the "Critical Path." The Task Force assumes that threshold issues addressed in March 2010 remained consistent and relevant in January 2011. Any exceptions to this assumption will be noted in the following analysis.

C.O.R.E.

C.O.R.E. (Community Organized Redevelopment Effort) was represented by Ali Mackani and Larry Kelley. While the C.O.R.E team remains focused primarily on the Westfield Downtown Plaza as a

potential ESC site, the representatives stated they wished to broaden their prospective locations to include the rail yards and perhaps other unspecified properties.

The team requested a 180-day exclusive agreement with the City to examine the feasibility of its project. Key threshold issues to be determined during the 180 days would include: Establish a purchase price for the Westfield property or, alternatively, establish the limits of participation by Inland American should the rail yards site prove more viable; identify lease terms and revenue splits with the Sacramento Kings; identify potential public revenue sources, such as parking, transit occupancy tax and car rental tax; determine the amount of Tax Increment Funding available; establish the values and potential uses of the current Arco Arena and adjacent property owned by the City; determine private debt-equity funding sources.

(Note: Each of the four teams stipulated to the overall importance of lease terms, revenue splits, hotel and rental tax and tax increments, plus potential income from the Natomas site and the identification of debt-equity sources, among other revenue concepts.)

The C.O.R.E. team was noteworthy in several aspects: the participation of Mr. Kelley, an experienced and respected Sacramento area developer, the participation of Mike Kvarme, an experienced land-use attorney in Sacramento, and the absence of renderings and prospective financial models. The omissions were intentional as Mr. Kelley noted he would not show the Task Force “pretty pictures,” but would instead speak “the truth.” The truth, according to Mr. Kelley, was that the City must determine its willingness to partner financially with the developers to make the project feasible.

Accordingly, the Task Force believes the viability of the C.O.R.E. team rests with the ability of Mr. Kelley (and partners Mr. Mackani and Mr. Kvarme, plus future investors) to reach negotiated agreements with multiple interested parties, notably the Kings, Westfield, or Inland American, other downtown interests such as Macy’s Inc. and the City and other governmental agencies, and to secure private financing. Before moving forward with C.O.R.E., the City must determine the commitment levels of Messrs. Kelley, Mackani and Kvarme.

In the follow-up meeting, Mr. Kelley and Mr. Kvarme reiterated their belief that the overall feasibility of the project must be objectively reviewed before moving forward. Mr. Mackani indicated he had identified potential investors for the purchase of Downtown Plaza, but did not provide details. Mr. Mackani identified a prospective project funding gap of \$300 million. The Task Force agrees that an objective feasibility study of the overall ESC project must be completed before moving into future stages.

Sacramento Convergence

The Convergence team was primarily represented by developer Gerry Kamilos and attorney Charles Trainor. While the Convergence presentation was the subject of intense questioning and criticism by Member Harris, the Task Force believes Mr. Kamilos deserves appreciation for his diligence and optimism in attempting to push forward with a highly creative, if extraordinarily complicated, project.

The Task Force has previously documented the origins and evolution of Convergence (see “Critical Path Report” and “Report Out and Next Steps” as posted on sacfirst.org), and this analysis will not re-examine

the performance of Mr. Kamilos during his 2010 Exclusive Right to Negotiate with the City.

In the last three months, Mr. Kamilos has altered his team and reconfigured his proposal in one significant aspect, abandoning his proposal to move the State Fair to the Natomas site currently occupied by Arco Arena and opting instead to keep the State Fair at its present Point West Cal Expo location. While the original Convergence plan intended to generate income by the mixed-use development of approximately 350 acres at Cal Expo, the new proposal envisions generating income by developing 125 acres at Cal Expo plus 184 acres at the current Arco site. Mr. Kamilos believes maintaining Cal Expo at its current site will be acceptable to the Cal Expo board of directors, which must approve the Convergence plan and which voted to terminate discussions with Convergence in September 2010.

Mr. Kamilos told the Task Force that he now recognizes a new ESC downtown cannot rely upon monies from the City's general fund; he further recognizes that a proposed parking structure to support a new ESC downtown must be funded by the project and not rely on public financing (a previous version of Convergence based garage construction on a public-private partnership).

In terms of overall financing, the new Convergence retains crucial elements of a public-private partnership. Mr. Kamilos told the Task Force that conventional equity and debt financing is not feasible for a project that may have a funding gap of more than \$150 million. Mr. Kamilos envisions a "P3" financing model to satisfy the \$70 million loan/bond obligation owed by the Kings to the City. The Convergence team has not provided details about the loan's discharge.

As for the makeup of his project team, Mr. Kamilos told the Task Force he has added Ellerbe Becket/AECOM (architects and energy planning); Hunt Construction and Tutor Perini (contractor); POSCO steel; and Sharp Electronics (renewable energy). Mr. Kamilos previously noted his association with VisionMaker Worldwide of Orange, CA, which develops and operates several theme parks and water parks in the United States and globally.

At least two team members have left Convergence, including David S. Taylor (developer) and Turner Construction. Moreover, while Convergence benefitted by a significant amount in 2010 due to its endorsement and/or affiliation with NBA Consultant John Moag, it must be noted that Mr. Moag is no longer affiliated with Convergence. The Task Force understands that any agreements between Convergence and the NBA or Mr. Moag have expired.

In the follow-up, Mr. Kamilos presented an enthusiastic and experienced team and optimistic outlook, and invited Brian May, assistant General Manager of Cal Expo, to attend. Notably, Mr. May stated the Cal Expo board was extremely reluctant to allow any potential Cal Expo-generated revenue or investment dollars to be spent on an ESC project downtown. The State Fair, he stated, would focus on its own best interests, not the interests of downtown Sacramento.

While Mr. Kamilos remains optimistic about his chances for success, the amended Convergence project remains the most complex proposal under consideration. The threshold issues that proved to be stumbling blocks to Mr. Kamilos during his ERN period with the City have not been resolved. Convergence still must be endorsed by the Cal Expo board, and legislative approval for the sale of Cal Expo property must

be secured. The financial assumptions must be proven, and the plan must receive support from the Kings and NBA. The departure of Mr. Taylor and the expiration of any agreements between Convergence and Mr. Moag must be considered as setbacks to the Convergence project.

Ultimately, the Convergence plan suffers from its position as a program with history. In the matter of Convergence, the concept's history, as demonstrated by the first ERN, provided evidence that established the project's inherent complications likely render it feasible in theory only.

Natomas ESC Partners

An experienced team led by Michael Corrick, president of Nacht & Lewis Architects, presented a visionary plan for the 184 acre site in the Northern reaches of Sacramento City, including property currently occupied by Arco Arena.

The Natomas team envisions an entertainment and cultural district, anchored by a new 18,000-seat entertainment and sports complex, but not limited to an events center. The ESC will be surrounded by an "entertainment hub," which includes retail shops and a plaza for outdoor cultural events. A hotel site has been identified, along with restaurant locations and office space. The retail sites will integrate with a new light rail station, promoting public transit and access from neighboring communities. To the Northeast on property not entirely included in the 184 acres of City-owned land, the project proposes a "green" residential village. The Natomas team has noted its desire to build a community that reduces automobile reliance and presents a suburb highlighted by its compact profile and connections to public transit. Of particular interest is a wellness center which would enhance the project's theme of sports and recreation. The promoters also envision a training facility for the Sacramento Kings.

While the entertainment hub and ESC will require new construction, the current Arco Arena will be transformed into a "learning academy," museum and Science Park. The Natomas partners have gone so far as to plan for a "habitat for migratory birds" and green technology companies in the Science Park. The physical separation of the current Arco Arena structure and the new ESC will be accomplished by a "Wetland Recreation Zone," which presumably would allow the relevant acreage to return to its natural condition.

The Natomas ESC group has given significant thought and detail to financing its project, though the numbers as presented in the development program must be characterized as theoretical and based on unknown assumptions.

The primary funding source identified by Natomas team would be taxable facility bonds (\$411 million of \$436 million total). Beyond taxable bonds, the Natomas team becomes extremely creative. For example, the project team identifies the sale of 10,000 "personal seat licenses" at \$2,500 per license. While seat licenses have been attempted (often with controversy and mixed results) in other communities, they are untested in the Sacramento market. The project team proposes the use of a PILOT bond to retire the \$70 million debt owed the City by the Kings. PILOT (Payment In Lieu Of Taxes) bonds for this purpose would likely beg examination by State and Federal taxing authorities. Furthermore, the project relies on

facility fee ticket taxes, tenant lease payments, naming rights, parking revenues and some form of collateral based upon pledges of 50 percent of ticket sales by the Kings. While the assumptions of lease payments, naming rights and parking are consistent with all four ESC proposals, the pledge of 50 percent ticket sales by a professional sports team would be extraordinary.

Several Task Force members noted concerns with a localized economic impact of an ESC project in Natomas as compared to the presumably greater impact of a downtown ESC. Also questioned by the Task Force was the viability of a retail component at the current Arco Arena site, as members noted there has been minimal retail development in the immediate vicinity of the arena during the last 25 years (the current arena opened in 1987).

The follow-up meeting was conducted by teleconference with the Natomas ESC team, which included Jeff Baize and Bob Morino of Brookhurst Development Corp., Rob Robinson of Hammes Company Sports, Rick Millitello of Skanska USA Building and Mr. Corrick of Nacht & Lewis Architects.

Mr. Baize stated that the proposal is effectively the same as submitted to the Task Force in late 2009. The team believes a strong point of the proposal is a 2.25 Debt Coverage Ratio. The team also anticipates lower costs than downtown thanks to infrastructure being in place in Natomas.

Natomas ESC reiterated that its plan would carry no cost to the taxpayer, with solid economic growth potential for the City. The Task Force believes there may be City policy issues relative to committing property taxes from a project area back to that area for development, or whether such a special tax could be issued without a vote of the residents. The development team noted its concern about the federal moratorium on development in Natomas and environmental impact study issues.

When asked whether the proposed development in the Natomas ESC project could be done without the ESC in the package, the team was silent.

On a philosophical note, the Task Force mused that the visionary, sweeping project proposed by the Natomas ESC group would be equally visionary and sweeping with the elimination of the ESC; that is, the concept has sufficient depth with a health, science and education center, hotel, retail and mixed use components as to make an ESC unnecessary in Natomas.

David S. Taylor and ICON Venue Group

The newly formed team of Taylor and ICON, having established itself only three weeks before the January 6 Task Force hearing, did not present a comprehensive development plan for an ESC. In place of a development plan, the Taylor ICON team presented a “proposed approach” and “commitment and timing” outline that would require 90 days of exclusive consideration by the City to determine the feasibility of an ESC project. While the lack of a development plan could be considered non-responsive in some circumstances, the Taylor ICON team warrants unique consideration owing to its extensive experience and track record, locally, nationally and globally, in the development of major projects, including events centers, under challenging circumstances. With Taylor ICON, the Task Force and City

are being asked to rely for 90 days upon the experience and credibility of the proponents rather than a specific development project.

Significantly, the Taylor ICON team has secured support from Inland American, the Illinois real estate company that obtained ownership of the downtown rail yards from Thomas Enterprises in foreclosure last year. The support allows Taylor ICON to become successor to the “Railyards” ESC proposal submitted in 2010 by Thomas. Moreover, while all ESC proposals involving the rail yards presume an ESC will be built on city-owned property, an established alliance with the immediate neighbor, Inland American, improves the position of Taylor ICON.

The team was represented by David Taylor and Timothy Romani, who, in their words, “offer a perfect combination of local development experience and international arena expertise.” Mr. Taylor is a commercial property developer specializing in downtown Sacramento, whose signature projects include the Sheraton Hotel and New City Hall, plus major redevelopment projects on K Street and a recent Class A office tower on Capitol Mall. Mr. Romani is chief executive of ICON Venue, a Colorado company that ranks among the global leaders in sports facility project development, including more than 20 stadiums or arenas worldwide. The Taylor ICON team is augmented by architect Dan Meis of Populous, Turner Construction and Adam Mendelsohn of Mercury Public Affairs.

At the January 6 public hearing and at the follow-up session, the Taylor ICON team detailed its specific tasks during the presumptive 90-day feasibility study. The group would meet with the Kings and NBA and determine the level of ESC interest and assumptions relevant to the team’s ownership. The group would analyze potential aspects of City, county and community participation, based on experiences from other projects, after establishing minimum cost thresholds for the project. Taylor ICON would explore non-sports revenue opportunities, including an alliance with AEG Worldwide, the Los Angeles entertainment content manager, in an effort to maximize event bookings at a new ESC.

After analyzing team and City positions and establishing the lowest possible building costs, Taylor ICON would examine a variety of taxing instruments, plus private financing models and determine the project feasibility. It must be noted that the other development groups have similarly identified potential tax instruments and private financing, plus participation by the Kings, NBA and local governments, and such ancillary components as naming rights and suite sales, as elements crucial to the project. In comments at the public hearing and follow-up, Mr. Taylor and Mr. Romani noted the distinction in their proposal was the willingness and unique ability to produce a comprehensive project feasibility analysis before seeking any further participation by the City.