



City of Sacramento City Council

915 I Street, Sacramento, CA, 95814
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Meeting Date: 3/6/2012

Report Type: Staff/Discussion

Title: Entertainment and Sports Complex (ESC)

Report ID: 2012-00231

Location: Downtown/District 4

Recommendation: Pass a motion to: 1) approve the term sheet; 2) authorize the City Manager to proceed with the Parking Monetization RFP process; 3) direct staff to prepare a predevelopment agreement for the ESC consistent with the term sheet; 4) authorize the City Manager to enter into contracts for consultant services and the City Attorney to enter into legal services agreements, to assist with predevelopment work for the ESC; and 5) authorize the use of up to \$850,000 from the City's Parking Fund to pay for those services.

Contact: John Dangberg, Assistant City Manager, (916) 808-5704

Presenter: John F. Shirey, City Manager and John Dangberg, Assistant City Manager

Department: City Manager

Division: Executive Office

Dept ID: 02001011

Attachments:

- 1-Description/Analysis
- 2-Attachment 1 Background
- 3-Attachment 2 Predevelopment Cost
- 4-Attachment 3 Term Sheet
- 5-Attachment 4 Taylor-CIM Letter

City Attorney Review

Approved as to Form
Matthew Ruyak
3/1/2012 4:14:23 PM

Approvals/Acknowledgements

Department Director or Designee: John Dangberg - 3/1/2012 2:18:58 PM



Description/Analysis

Issue: Beginning in February 2011, the City formally engaged in an effort to finance the development and operation of a new downtown entertainment and sports complex (ESC). Shortly after launching the effort the Sacramento Kings announced plans to pursue relocation to another city principally due to the outdated design and condition of Power Balance Pavilion. Following a successful Sacramento effort to forestall any relocation in 2011, the National Basketball Association (NBA) stipulated a deadline of March 1, 2012 for the City, NBA, and Kings to reach agreement on terms for the financing, development, and operation of a new facility to be opened no later than the 2015 basketball season.

Since that time, the City has been engaged in a series of studies and negotiations leading to the recommendations outlined in this report. This report presents for Council consideration a term sheet between the City, Kings, AEG Facilities, LLC (AEG) and ICON-Taylor for the finance, development and operation of a new publicly-owned ESC in the Downtown Sacramento Railyards. In addition, this report provides details and recommendations for financing the City's portion of the project including the monetization of the City's parking assets and sale of City-owned land. It also includes recommendations on how financing can be accomplished without negatively affecting the City General Fund cash flows.

Report Organization

The Background report, contained in Attachment 1, is organized into the following sections:

- Section 1: Overview of City Council actions and public outreach
- Section 2: Summary of predevelopment costs
- Section 3: Summary of proposed terms of agreement with the Kings, AEG, and ICON-Taylor
- Section 4: Summary of letter of intent for a premium parking facility and predevelopment costs from David S. Taylor Interests and CIM
- Section 5: Description of the City of Sacramento's funding sources
- Section 6: Description of City General Fund considerations
- Section 7: Next steps

Policy Considerations: The development of the Entertainment and Sports Complex will transform a vacant, blighted City property near the Depot into a thriving center of entertainment and activity. Completion of the ESC will fulfill several critical policy objectives. Specifically, the ESC will retain up to 1,200 existing jobs and create 5,000 new ones, based on staff's analysis using the IMPLAN model. In addition, it will help spur the development of the City's historic Railyards. The project will serve as a catalyst for economic development in Downtown and throughout our region. The ESC is an important part of realizing the City's General Plan vision of creating the most livable city in America.

Environmental Considerations: The actions in this report are exempt from the California Environmental Quality Act (CEQA) under CEQA Guidelines (14 Cal. Code Reg. Section 15000 et seq.) as they concern business terms of a future agreement. If the Council approves the financing plan for the ESC, the project itself will be subject to CEQA analysis to determine effects on the environment.

Sustainability: None at this time. If the Council approves the financing plan for the project, the ESC is anticipated to be designed as a LEED silver project.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: Given the current economic conditions affecting the region, development of the ESC will serve as an economic catalyst for Downtown and the region. It will further enhance the entertainment and cultural opportunities in Downtown and our region. Using the IMPLAN model, staff has determined that development of the new ESC will retain up to 1,200 existing jobs and create 5,000 new jobs, which is critical in our current economy. Approval of the term sheet will allow the City of Sacramento to move forward with the agreement for the financing, development, ownership and operation of the ESC and retain the city's only professional sports franchise, the Sacramento Kings. Staff will also be able to begin work on the required environmental studies, infrastructure design, parking monetization, land sales, and other actions necessary to start operations of the ESC by late-2015.

Financial Considerations: The development of the ESC is a \$390.5 million dollar project. Of that amount \$255.5 million will come from the City of Sacramento from a variety of sources, including parking monetization and land sales. The Sacramento Kings and AEG will provide \$132 million, while a capital campaign will add an additional \$3 million. A detailed discussion of the sources of the funds from all parties is detailed in Attachment 1.

Development Revenue Sources	Amount
City Contribution	\$255.5 million
Capital Campaign (e.g., sponsorships, other)	\$3 million
Sacramento Kings	\$73.25 million
Anschutz Entertainment Group (AEG)	\$58.75 million
TOTAL	\$390.5 million

Staff is seeking Council approval for the use of a total of \$850,000 from the City's Parking Fund (Fund 6004) for the following consultants and advisors necessary for this process. These include:

Barrett Sports Group, LLC	\$300,000
Financial Advisor	\$ 50,000
Parking Consultant	\$ 50,000
Transaction Attorneys	\$250,000
<u>Legal Counsel</u>	<u>\$200,000</u>
Total	\$850,000

With the exception of Barrett Sports Group, which will be needed throughout the entire process, the consultant costs identified are for the three-month period through May 2012. The total costs for the remainder of the process are contingent upon the direction Council decides to ultimately pursue, particularly with respect to the parking monetization. Those costs are detailed in this report. Staff is not requesting all the funds for the entire process at this time. With the exception of funding for Barrett Sports Group, staff is only requesting funding for the work through May and will return to Council in the future when the first stage of the parking monetization RFP process has been completed.

Emerging Small Business Development (ESBD): None at this time.



Section 1: Overview of Council Actions and Public Outreach

This section provides an overview of Council actions related to the Entertainment and Sports Complex (ESC) and the process leading up to this staff report. In addition, a discussion of community meetings and outreach with community partners on the ESC and parking monetization is included below.

- On February 8, 2011, the City Council selected ICON-Taylor to analyze the feasibility of developing the ESC in Sacramento. ICON-Taylor is composed of David S. Taylor Interests, Inc., a Sacramento development firm with extensive experience completing complex projects, and ICON Venue Group, LLC, which has had considerable success developing ESCs around the country. Also part of the team is Populous, a well-regarded sports-architectural firm and Turner Construction, a leading builder of arena and stadium projects in North America.
- On May 26, 2011, ICON-Taylor presented its ESC analysis to the City Council and concluded that (1) an ESC could be built on either the Railyards or Natomas site; (2) the ESC would meet the needs of the NBA and other event programs; (3) the cost of the ESC is approximately \$390.5 million; and (4) the ESC could be built by 2015. Council asked staff to conduct a technical review of the ICON-Taylor analysis and report back within 100 days.
- On September 13, 2011, three reports were presented to the City Council as follows:
 1. Technical review of the ICON-Taylor proposal - This report examined the myriad issues associated with building the ESC in the Railyards, including planning, building, urban design, circulation, parking, roadway, and utility issues along with potential strategies for the reuse of the Natomas arena site. Staff examined the assumptions underlying the ICON-Taylor analysis and identified areas where additional study is needed. Staff also confirmed that the schedule for completion of the project by 2015 was very constrained. In order to complete the project in 2015, predevelopment activities needed to commence as soon as possible.
 2. Outline of revenue and finance options for financing the ESC - Council gave direction to staff to review the revenue streams and report on any policy and legal considerations on the options. Council also directed the review of the capacity of these streams to support debt and any impact on City debt capacity and rating. The same report suggested that there may be substantial value in the City's parking enterprise that could be leveraged and capitalized to make a significant capital contribution to the project. The City Council directed staff to further analyze the value of the City's parking assets.

3. Exclusive Right to Negotiate - Staff recommended the City enter into an ERN with ICON-Taylor with the goal of negotiating the general terms for a predevelopment agreement for the financing, development, ownership and operation of the ESC. The Council approved a resolution directing the City Manager to prepare an ERN for Council consideration.

- On September 27, 2011, City Council approved a budget of \$555,000 for professional services needed to complete due diligence work and approved the ERN with ICON-Taylor. It included provisions for the City and ICON-Taylor to identify equity partners, further develop the project proposal, develop terms, and initiate limited predevelopment activities.
- On October 18, 2011, City staff provided City Council with a schedule for the critical period prior to end of 2011 as well as major milestones through completion of the ESC project.
- On December 13, 2011, staff returned to City Council with information on parking monetization, as well as studies on the City's parking assets and potential value. Council directed staff to issue a Request for Qualifications (RFQ) to solicit interest from respondents on parking monetization.
- On February 14, 2012, City Council approved a list of eleven most qualified bidders from the parking monetization RFQ process. The decision about whether to proceed to the Request for Proposals stage would not be made until the ESC proposed term sheet and finance plan are brought to Council for consideration.

Public Outreach Efforts

As part of the initial planning for the ESC, City staff conducted outreach to provide information and solicit input from the public and key stakeholders. Additional and more extensive outreach is planned for the next phases of this effort.

- July 13 and July 14, 2011 – Faculty from the Urban Land Institute's Daniel Rose Center in conjunction with City staff conducted a tour, interviews and held a workshop to discuss the feasibility of locating the new Entertainment and Sports Complex (ESC) and the intermodal transportation facility on City property at the south end of the Railyards. ULI faculty met with officials from transportation and housing agencies as well as representatives from land owners, developers and business groups.
- October 12, 2011 – City staff held a public scoping meeting to solicit input on the Notice of Preparation that was issued on September 27, 2011 for the Environmental Impact Report (EIR) for the new ESC.
- October 28, 2011 – City staff met with parking operators to solicit input on City-owned parking assets and on-street parking.
- November 2, 2011 – City staff met with the Convention and Leisure Bureau and hoteliers on the use of TOT funds and the future needs for the convention center.

- November 7, 2011 – City staff met with Central City restaurateurs to discuss the impact of the ESC on their businesses and the potential of a business improvement district.
- November 10, 2011 – City staff met a second time with parking operators regarding their recommendation on the use of City parking assets for the ESC.
- November 15, 2011 to Present – City staff has met regularly with the Downtown Sacramento Partnership’s ESC Working Group and DSP staff to discuss a wide range of opportunities partnerships and issues related to the ESC and Downtown.
- February 14, 2012 – City staff met with the Transportation Committee of the Midtown Business Association to discuss the parking monetization proposal and answer questions about issues and next steps.
- February 15, 2012 - City staff briefed the Downtown Sacramento Partnership on the status of the ESC and discussed the potential parking monetization.
- February 16, 2012 – City staff discussed ESC site design, access, transportation and the parking monetization with the Executive Board of the Old Sacramento Business Association.

Section 2: Summary of Predevelopment Costs

Predevelopment work in preparation for the construction of the ESC includes site planning, environmental review, infrastructure design and engineering, building review, site design and building design. This work is necessary to ensure that all major issues have been addressed prior to the start of construction which is scheduled for mid-2013.

Planning and Design

Careful planning will be necessary to address issues related to parcel size and location; proximity to historic landmarks and resources; public space; pedestrian, bicycle and vehicular access; transportation and view corridors; and service and loading functions.

Site design and building design will be one of the most critical components of the predevelopment work involving City staff and the proposed ESC development team (ICON Venue Group, David S. Taylor Interests, Populous, and Turner). The proposed location of the ESC building faces a number of site constraints as well as opportunities. City Urban Design staff will work closely with the proposed ESC development team to ensure the best possible placement for the ESC within the Depot District based on the site's future uses. The goal will be to ensure the ESC works well with surrounding uses and enhances and energizes Downtown and the Railyards.

Environmental Review

Under the California Environmental Quality Act (CEQA), the ESC proposal would be a project subject to CEQA review. The City will be required to prepare a supplemental or subsequent environmental impact report (EIR), depending on the extent of changes needed to the Railyards EIR. In addition, the project may also be subject to review under the requirements of the National Environmental Policy Act (NEPA) depending on the extent and nature of changes to the previously identified Intermodal project, and the extent to which the Area of Potential Effect (APE) is modified. In addition, the City plans to apply for environmental streamlining for the ESC project in accordance with the regulations contained in AB 900 (Public Resources Code Section 21178 et seq.). This will involve close coordination with the Governor's Office of Planning and Research (OPR) as well as the California Air Resources Board (CARB).

Infrastructure

As part of the Railyards Specific Plan and Environmental Impact Report, the backbone infrastructure has already been planned for the Downtown Railyards development and much of it is already under construction. In addition, conceptual infrastructure planning has been done for the City-owned land where the Sacramento Intermodal Transportation Facilities project and ESC would be located. City staff relied on previous studies and data to complete the feasibility report review.

A summary of major considerations is listed below:

- The future Intermodal Transportation Facilities and ESC can be co-located within the same general area. The two uses are complementary. More work will be needed to determine the actual location of each project before design work commences.
- Acquisition of the privately-owned 2-acre parcel known as Lot 40 of the Railyards project may be needed for the projects.
- There are a substantial number of parking spaces within a ½ mile to a mile of the ESC. Additional study is needed to find out the usage and location of spaces available coincident with ESC events. Provision of premium parking needs to be considered.
- Transportation Sales Tax was used to purchase the City-owned site for the Intermodal project. If a portion of the City-owned parcel is used for the ESC, repayment will have to be made to the Sacramento Transportation Authority
- Although the soil at the site has been remediated to a commercial/industrial level, ground water and vapor intrusion have not been addressed.

Some infrastructure projects that serve the site are already funded as a City or development project currently under construction or to be completed by 2014. Those projects include:

- Track Relocation
- Pedestrian/Bike Tunnel connecting Old Sacramento and Central Shops
- Improvements to Interstate 5/Richards Boulevard interchange and Jibboom and Bercut
- 4th & I Street new signalized intersection and pedestrian crossing
- Extension of 5th & 6th Streets from H Street to the future Railyards Boulevard
- Extension of G Street from 5th to 7th Streets (pending funding)
- New Railyards Boulevard from Bercut to 7th Street

There are additional infrastructure projects that are needed for the ESC that would have been built in the future when Railyards development progresses further or in future phases of the Intermodal project. Funding will come from a combination of sources including Measure A land sale, Railyards development (Inland), and the ESC project budget.

- Extension of F Street from 3rd to 7th Street
- Extension of H Street from 3rd to 5th Street
- Extension of 3rd Street from F to I Street
- New Bercut/Jibboom/Railyards intersection
- New traffic signals
- Relocated detention basin north of railroad tracks
- Construct water distribution main lines and relocate existing sewer and water mains serving the Central Shops area

Timing and cash flow will be worked out between the City and Inland American, the Railyards owner.

ESC specific infrastructure is accounted for in the project budget. Examples of this are removal or relocation of utilities estimated at \$3.66 million and off-site transportation improvements of \$2.52 million.

There will be more detail on infrastructure needs upon completion of the environmental impact report.

Building Review

The City will be responsible for the comprehensive review of plans for the Entertainment and Sports Complex. This will involve review by Community Development Department’s Building Division as well as the Department of Transportation’s Development Engineering Division and Utilities Department staff to address code and construction standards as well as access and other off-site improvements. Plans will be reviewed for compliance with applicable federal, State, and local codes.

Outreach

Throughout the predevelopment process City staff and the proposed ESC development team will reach out to the public to seek input and address concerns related to site design, building design, historic issues and other potential environmental effects.

Schedule

The overall schedule for planning, environmental and building review will take approximately 12 to 14 months, depending on whether concurrent review can be done given the complexity of the project. Planning review can be done during the environmental review.

Cost

The predevelopment cost anticipated for planning, design, environmental review, and infrastructure is approximately \$13 million. Predevelopment costs will be split between the City (50%), the Sacramento Kings (25%) and AEG (25%). The table below provides a breakdown of the predevelopment costs. The sources of City funds include the Master Owner Participation Agreement (MOPA) funds and the Parking Fund. The MOPA funds were set aside for Downtown development projects from proceeds after the sale of the Sheraton Grand hotel. The MOPA funds are intended to facilitate planning and implementation of projects in downtown Sacramento and the ESC project is an eligible use of those funds.

Sources	Amount	Uses
Sacramento Kings	\$3,250,000	Legal expenses, site and building design, engineering, project administration, environmental review and other necessary expenses.
AEG	\$3,250,000	
City of Sacramento		
- MOPA Fund	\$5,000,000	
- Parking Fund	\$1,500,000	
TOTAL	\$13,000,000	

For a detailed breakdown from ICON, including predevelopment costs, the specific use, and the time frame for the expenditure, refer to Attachment 2.

Section 3: Summary of Proposed Term Sheet

The attached Term Sheet (Attachment 3) sets forth the basic terms of agreement between the City of Sacramento, the Sacramento Kings, AEG Facilities, LLC (AEG) and ICON Venue Group/David S. Taylor Interests (ICON/Taylor) with respect to the location, financing, ownership, design, development, construction, operation, use, and occupancy of a new, first class, state-of-the art, multi-purpose entertainment and sports complex (ESC), that will serve as the home of the NBA's Sacramento Kings and will also host family shows, concerts, sporting events, community-oriented events, and numerous other events. The Term Sheet does not bind the City to enter into any future agreement to finance the ESC project. Final terms will be incorporated into definitive legal documents.

The funding sources for the development budget from all the development partners are identified in the table below:

Development Revenue Sources	Amount
City Contribution	\$255.5 million
Capital Campaign (e.g., bricks, other)	\$3 million
Sacramento Kings	\$73.25 million
Anschutz Entertainment Group (AEG)	\$58.75 million
TOTAL	\$390.5 million

Additional detail on the terms is as follows:

ESC Ownership: The ESC will be owned by the City of Sacramento.

ESC Operator: The ESC will be operated by AEG under a 30-year lease.

ESC Anchor Tenant: Sacramento Kings under a 30-year commitment

Proposed Architect: Populous

Proposed Contractor: Turner Construction

Sacramento Kings Financial Contribution:

- \$73.25 million up-front payment for ESC construction
- 5% ticket surcharge on all Kings' basketball related events retained by the City (\$2.6 million per year)
- Facility Fee of \$1 per ticket on all Kings' events to the facility fee reserve (\$0.667 million per year)
- Responsible for 25% of predevelopment expenses (estimated at \$3.25 million)

- City to be reimbursed for customary police traffic control and other municipal services on event nights
- Financial participation and cooperation with City on Natomas reuse

AEG Financial Commitment:

- \$58.75 million up-front payment for ESC construction
- Responsible for 25% of predevelopment expenses (estimated at \$3.25 million)
- 5% ticket surcharge on all non-Kings' basketball events retained by the City (\$1.1 million per year)
- Facility Fee of \$1 per ticket on all non-Kings events to the facility fee reserve (\$0.647 million year)
- Payment for 50% of capital repair expenses in excess of the facility fee reserve account
- AEG bears all operating risk
- City to be reimbursed for customary police traffic control and other municipal services on event nights
- Profit sharing with City:
 - 15% of first \$10 million
 - 30% of next \$5 million
 - 50% of anything over \$15 million

Capital Campaign:

- \$3 million in fundraising for ESC construction
- Engraved brick pavers and wall plaques
- Certificates of contribution, pride, shares etc.
- Gifts and donations

City Public Commitment:

- \$255.5 million for ESC construction
- Sources:
 - \$230 million parking monetization
 - \$18.5 million from land sales. (Estimated total value of land sales is \$30.7 million; however, the City has used conservative assumptions. So only \$18.5 million is budgeted for the ESC in order to address variability of market conditions and to account for expenses associated with sale of the land.)
 - \$5 million Sheraton MOPA (for predevelopment costs under a public-private partnership)
 - \$1.5 million parking infrastructure fund (for predevelopment costs)

1997 City Lease-Revenue Bonds (Loan):

Existing bonds must be retired once the Kings move out of Power Balance Pavilion in 2015. City will issue new 30-year bonds to retire existing bonds in 2015 upon the Kings providing

satisfactory security and collateral for the loan which may include an ESC lockbox on Kings' revenues among other items to be determined.

New ESC 1,000-Space Premium Parking Structure:

New 1,000 space private parking structure for conjunctive use with other uses in the area. These spaces would serve to facilitate premium ESC seat parking and other parking. The parking garage would be developed under a public-private partnership with CIM, David S. Taylor Interests and the City. The source of funds to construct the facility are Sheraton MOPA funds of up to \$14.5 million and at least \$10.5 million of private debt. AEG has committed to commit to purchase the required spaces for the premium seat holders.

Cost Overrun Guarantee:

Turner Construction will provide Completion Guarantee and Construction Cost Overrun Guarantee for ESC construction-related costs.

Event Parking Revenues in City Garages:

- Kings Basketball to Kings (except County)
- All other events to the City

Section 4: Summary of Letter of Intent for Premium Parking and Predevelopment Funding

The City anticipates entering into a development agreement for the development of a new parking garage to serve premium seat holders at the new ESC. Such facilities are a typical requirement for most new sports and entertainment facilities including those in urban settings and typically are part of the purchase price for premium seat packages.

The City has received a letter of intent from the Taylor/ CIM Redevelopment Company, LLC, which is comprised of David S. Taylor Interests, Inc. and the CIM Group (refer to Attachment 4). The letter of intent, which is anticipated to lead to a development agreement with the City, outlines the following key terms:

- A new 1,000-space premium parking facility will be constructed on land near the ESC; and
- Assumes that AEG will commit to the use of this new facility for premium seat holders and purchase the required spaces for the seat holders.

In addition, predevelopment funding will be necessary to ensure that key elements of the planning, design, engineering and design work are completed on schedule so that construction of the ESC can begin in mid-2013. The letter of intent specifies that \$5 million will be provided for predevelopment expenditures.

The funding for predevelopment will come from the Master Owner Participation Agreement (MOPA) funds, which are the funds that were set aside for Downtown development projects from proceeds after the sale of the Sheraton Grand hotel. As noted earlier in this report, the MOPA funds are intended to facilitate planning and implementation of projects in downtown Sacramento. Under the requirements established for the MOPA funds, the ESC is considered an eligible use of the funds. In addition to the predevelopment costs, MOPA funds in combination with additional private debt and/or equity will be used for development of the premium parking facility.

Section 5: City Sources of ESC Capital Funding

Parking Monetization

As part of the parking monetization process, City staff is seeking Council approval to further investigate and pursue two approaches simultaneously. The first approach will involve initiating the first phase of the Request for Proposals (RFP) process parking monetization with the current group of 11 qualified bidders. In the second approach, City staff will work with its investment banker team to finalize a preliminary City monetization model for use as either a) a benchmark against which private sector proposals will be evaluated, or b) the preferred monetization approach. This will enable City staff, Council and the public to be able to determine which approach provides the greatest value to the City, its businesses, and customers as well as provides the greatest support for the development of the Entertainment and Sports Complex (ESC).

Based on preliminary analysis, there are positive and negative aspects of a concession model that would result from the RFP process just as there are if the City were to pursue monetization on its own. It is important that the City be able to clearly identify these and weigh them against each other to ensure that the City selects the approach to parking monetization that best addresses its needs.

Considered a best practice in this evolving area of public-private parking partnerships (P4s), some cities have developed their own internal models in order to compare benefits and risks of a private sector approach (referred to here as the “concession model”) versus those of a public sector approach (“public sector model”).

The purpose of the dual track approach is to identify and answer important questions which are crucial to the success of a City parking monetization deal. These include the following:

- Who sets parking rates – the frequency, size and number of rate adjustments over the life of the agreement?
- What is the shortest possible term for an agreement controlling the City’s parking assets?
- Which model can provide the largest upfront payment needed for ESC construction costs?
- How will outstanding tax-exempt debt on City parking garages be addressed?
- Will City parking staff be retained and if so at what salary and benefit levels?
- How will the model address the concerns of Downtown businesses and developers?
- Does the approach protect the City’s General Fund and taxpayers?
- How much residual parking revenue can the City receive over the term of the agreement?
- What is the least costly process for monetizing City parking assets?

Since the completion of the Request for Qualifications (RFQ) process on February 14th, staff has done an initial assessment of the two models noted above. Below is a description of the two models as well as the positive and negative aspects of each. A cost comparison and timeline of both models is also provided below. Despite these initial findings, it is necessary to launch the first phase of the RFP process in order to fully address the questions identified above.

Concession Model and RFP Process

If Council votes to proceed with the RFP process, staff will meet with the City's list of 11 approved teams. As noted in the February 14th staff report, staff will begin a three-stage process in order to narrow the pool of bidders to a select few from which the City would select one to conduct a transaction. During the first stage, City staff will perform interviews and conduct further due diligence. This initial stage will involve staff time but will be cost-efficient both for the City as well as for the 11 qualified teams.

The benefit of the RFP process is it fosters competition among the bidders which can help the City achieve a higher upfront payment and more favorable terms for the concession agreement, which may include revenue sharing, maintaining current wages and benefits for parking staff, and a shorter term. In most cases, the concession agreement is structured so that the concessionaire (i.e., winning investment and parking team) bears the risk in the deal. For example, if parking revenues were to decline in the future, the concessionaire would assume all the risk. During the negotiations that lead to the final agreement, the City can specify terms with which the concessionaire must comply (e.g., retention of City staff for a certain period, rate setting mechanisms, etc.).

However, despite these benefits, there are some drawbacks to a concession agreement. Almost all of the bidding teams have proposed a 50-year term for the concession agreement, which would lock up the City's parking assets for an extended time period. While the City may be able to negotiate with teams to reduce this term, most teams in the RFP process would be unlikely to consider a shorter term due to tax benefits from depreciation. This could limit the City's ability to respond to future needs and conditions. While one team has proposed a much shorter term, that model has increased risks to the City's General Fund.

Even though the City can require the concessionaire to address the areas of concern cited by Council members at the December 13th meeting (e.g., revenue sharing; control of parking rates; retention of City staff at current salary and benefit levels; protecting the City's ability to take parking spaces out of use during special events without triggering compensation), any of those provisions will reduce the upfront payment to the City. Including several of these provisions in the final agreement could reduce the payment to the point where it is below the minimum value of the parking assets (\$185 million) based on recent studies.

An additional issue of concern is the outstanding tax-exempt debt on several of the City garages. There is currently \$52 million of outstanding tax-exempt debt on several of the City parking garages. In the event of a long-term lease to a private, for-profit company, this debt would have to be either paid off and/or converted to taxable debt.

Another significant factor is that this course of action results in the transfer of revenue from the City to the concessionaire due in part to the transfer of risk. Over the course of a 50-year lease the annual returns to the concessionaire can be in excess of 10%. In the concession model, the concessionaire receives a higher return because it assumes all the risk. However, if the City issues the debt, the cost would be much lower - likely an interest rate of 6% or less under current market conditions. As a result, the City retains more of the revenue but assumes more risk.

In addition, the RFP process can be expensive and, in the later phases, is expected to cost both the City and select bidders several million dollars each to complete. The large expense comes from the need to hire financial advisors, parking consultants, and specialized legal teams, including tax and bond counsel, in order to conduct due diligence and negotiate the final agreement.

Finally, while there are strong teams in the current pool of bidders and some cities, most notably Indianapolis, have had success with a concession model, the City would be entering into a long-term agreement that could limit the City's ability to respond to changing needs and conditions.

The Public Sector Model

Working with the City's team of investment bankers, the City has developed a preliminary public sector model using the parking revenues and other potential revenue streams such as Transient Occupancy Tax (TOT) revenue. The purpose of this public sector model is not only to use this model as a benchmark against which the concession model can be evaluated but also to identify a new financial tool that can potentially be used over the long-term to support entertainment, arts and development.

Just as with the concession model, there are positive and negative aspects to the public sector approach based on the preliminary work that staff has done. The structure of this public sector model would be similar to what was done in the Sheraton Grand hotel financing. It would likely involve establishing a non-profit corporation under Section 115 of the Internal Revenue Code (IRC). The non-profit corporation would be separate from the City and have a separate board of directors appointed by the City Council.

In this model, the City would transfer its parking assets to this new corporation. This structure would enable the corporation to issue a combination of tax-exempt and taxable bonds that could generate the necessary proceeds to help fund the Entertainment and Sports Complex (ESC) project. Staff has also explored bringing in other revenue sources to help bolster the ratings of the bonds since a higher rating means the City would have to pay less interest. City revenues such as TOT revenues could be one source. This model would also increase the borrowing capacity for projects planned for the other sources including, for example, the Community Center Theater renovation project. It is anticipated that such a model could produce net revenues that could be used to backfill the General Fund from the loss of parking revenues not only during the ESC construction period but could continue to provide revenue throughout the term of the agreement (see Section 6 below).

In this model, the new corporation would be responsible for parking operations and could either retain City parking staff or select a private operator, or a combination of the two.

With respect to the control of rates, as in the concession model the City Council could identify parameters for future rate increases; however, the corporation's Council-appointed governing board would be ultimately responsible for setting rates. In the City's initial financial analysis of this model, only those limited increases identified in the Walker report were included in the public sector model (refer to the study prepared on November 23, 2011 by Walker Parking Consultants entitled *City of Sacramento: Market, Financial and Condition Assessment of Parking Assets* from the December 13, 2011 Council meeting).

In contrast to the concession model where the concessionaire has all the risk, there is some risk to the City in the public sector model. For this reason, staff used conservative parking revenue projections for the term of the agreement with the corporation in order to reduce the risk of any shortfall. In a worst case scenario where revenues are not sufficient to make the debt payments, then the City's General Fund might have to be used to make those payments. That risk can be mitigated by using conservative assumptions and coverage factors.

A second risk is that this transaction could be counted as City debt, at least in part, by rating agencies which could affect the cost of future borrowing. However, by using the Section 115 corporation, the City may be able to protect the General Fund in the event of a shortfall in revenues since the parking operations and revenues would be transferred to this separate corporation. Another risk is the market conditions when the corporation issues bonds. In contrast to a concession model where the City can lock in the payment subject to an agreed upon closing date, in the public sector model if market conditions change (e.g., interest rates, level of investor interest, etc.) the payment amount and deal structure could change. The modeling done to date has factored in a rate buffer to protect against market fluctuations.

Despite these risks, the upside potential is equally important to recognize. As the City grows and parking demand increases, the increased revenues would accrue to the City General Fund. Furthermore, return on investments in technology and operational efficiencies would be directed to the General Fund. While initial review of this model has been completed there is additional analysis and underwriting review needed.

Cost Comparison of Concession and Public Sector Models

Apart from the earnings in the different models, both models have substantial expenses associated with the transaction. In each case, the costs are transaction fees, which means that the City's advisors get paid once the City completes the transaction to lease out its parking assets. Those funds would not come from the City but would come out of the proceeds from the transaction. However, in the event that the City decided not to complete the transaction, the City would still have to pay approximately \$1 million to cover legal and advisory services. In either case, the City's parking fund would be used to pay for these expenses.

Timeline

Both models would lead to a transaction that would be completed in early 2013. The difference is that in the public sector model most of that time would be devoted to the establishing the Section 115

corporation and the agreement transferring the parking assets and possibly other revenues to the new corporation.

Next Steps – Parking Monetization

Upon Council direction, staff will simultaneously begin the first stage of the RFP process and complete its analysis of the public sector model. The total City cost for this work is expected to be less than \$200,000. Upon completion of stage 1, City staff will return to Council with a request to either 1) initiate the last two stages of the RFP process and allocate the necessary funds for that; or 2) select the public sector model and authorize the funding to support that approach.

City-owned Land Sales

The City has ownership of several properties that could generate revenue for the ESC. However, City-owned land sales may take several years to generate revenue because of constraints that must be overcome in order to position the properties to maximize their revenue potential, including improved market conditions, approval for changed land uses, and elimination of environmental constraints. The estimate of potential revenues is summarized in the table below with a description of each property following. The estimates total \$30.7 million; however, assumptions for the proceeds for these sales are conservatively estimated at \$18.5 million for purposes of revenue generated to support the ESC.

One-Time Revenues	Revenue Mid-Range (Likely)
Sale of City-Owned Natomas Stadium Parcel (100 acres)	\$20,000,000
Sale of City-Owned 60 acres near Haggin Oaks Golf Course	3,900,000
Sale of City/Redevelopment Agency-owned Lot X (City portion) near I-5 and Capitol Mall	6,600,000
Sale of City-Owned 9472 Rogers Road	200,000
TOTAL	\$30,700,000

Source: EPS, Integra Realty, CBRE

Natomas Stadium Parcel. Located next to the existing Power Balance Pavilion, this site is approximately 100 acres of undeveloped land currently zoned SPX-PU—Sports Complex. Located in the Natomas Flood Basin, the Natomas Stadium Parcel is subject to a building moratorium imposed by the Federal Emergency Management Agency (FEMA) that will remain in place until certain FEMA criteria are met that assure Natomas levees will be improved to withstand a 100-year flood event. To maximize value, the parcel should be held until the building moratorium is lifted. Additionally, it could be consolidated with the adjacent Maloof-owned parcel and master planned for the ultimate use. Regardless, a General Plan land use change and rezone will be needed to support new development at the site.

60 Acres near Haggin Oaks. Currently part of the Haggin Oaks golf complex, this partially unimproved site is largely surrounded by the Haggin Oaks golf course, other sports facilities, light

industrial uses (e.g., self storage), and car dealerships. A full Environmental Impact Report (EIR) will be required. The site has some wetlands and other environmental limitations, which may substantially reduce the developable acreage and corresponding value. Situated near the freeway, CBRE concluded the site would be appropriate for a highway commercial business park or auto mall use (as evidenced by recent sales to car dealers). A master planning process, rezone, and subdivision will be necessary to maximize the parcel's value.

Lots X. Situated at the western end of Capitol Mall, Lot X comprises 2.59 acres of vacant land zoned for high-intensity office, hotel, and retail uses. Representing one of the last remaining development opportunities on Capitol Mall, this property is extremely well positioned for a variety of uses (office, hospitality, high-density residential). Portions of the site were owned by the Redevelopment Agency and are subject to the AB 1X 26 requirements for property disposition and revenue distribution. The City's share of potential revenues distributed from the sale of this asset is estimated at \$6.6 million.

9472 Rogers Road. This 13-acre parcel zoned for rural residential use is located in Unincorporated Sacramento County, east of Elk Grove-Florin Road and north of the Vineyard Specific Plan. The site would be appropriate for a large ranchette or horse property.

County Parking Revenue and Possessory Interest Tax

On February 28th, the Sacramento County Board of Supervisors approved a resolution supporting financial contributions from the County for the ESC and County regional parks. The Board agreed to support the use of its three downtown parking facilities adjacent to the ESC for special event parking subject to agreement on terms. The three facilities are located at 625 7th Street, 725 7th Street and the third facility is located between 8th and 9th, and F and G Streets.

The County also tentatively agreed to contribute new possessory interest tax (PIT) revenue generated by the ESC and potentially the PIT revenue from private, commercial use of County parking facilities if the City later decides to use a private operator for those facilities. It is estimated that the County's 1,500 parking spaces located at the three garages would generate approximately \$2.5 million annually. Of that amount, \$500,000 will be committed annually to fund County Regional Parks and the remaining \$2 million would support the ESC. In addition, the PIT revenue from the ESC is approximately \$660,000 per year. If the City used a private operator for the County's downtown garages then the County may contribute an additional \$400,000 in annual PIT revenue. As a result, the total annual contribution from the County for the development of the ESC is expected to be at least \$2,660,000.

Originally, the City had considered using these funds as further support for the backfill of the General Fund. Given the Board's concerns about County funds supplanting other sources, the City will instead use these funds for debt service for the ESC. The funds will be included in the financial structure in order to increase borrowing capacity for the development of the ESC. A portion of the funds will also be used to cover expenses related to the operations of the County garages for ESC event-related parking.

Section 6: General Fund Backfill Sources

Annually, the City of Sacramento’s parking system contributes approximately \$9 million to the General Fund. The most recent contribution for 2011 was \$8.9 million. With monetization of the parking assets under consideration, the Mayor and City Council have asked staff to identify potential revenue sources to “back-fill” the General Fund. In completing this work, the City engaged Economic and Planning Systems (EPS) who in collaboration with Barrett Sports Group examined revenues to ensure the City’s General Fund remained whole. Revenues sufficient to cover the loss of parking revenues have been indentified from the following sources as summarized in the table below. A discussion of each of these funding sources follows the table.

Annual Revenue Sources	Construction 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
SUBTOTAL		\$7,105,000
Parking System	\$9,000,000	1,895,000
TOTAL	\$9,000,000	\$9,000,000

*Note: Figures reflect most likely scenario (mid-range of estimate).

Construction Period - Parking

Prior to the start of construction of the ESC, the City expects to receive a lump sum payment out of the proceeds from the parking monetization that will backfill the loss of annual parking revenues to the General Fund during construction. The period of construction for the ESC is expected to start in mid-2013 and conclude in the early fall of 2015.

City Parking Revenue from Non-Kings Events

The City will retain all parking revenues from City owned lots during non-Kings events at the ESC. The total amount of revenue from non-Kings events is expected to be approximately \$965,000 annually. This parking revenue has not been included in any of the parking monetization analyses and would be in addition to the parking system monetization revenues.

Ticket Surcharge on Kings and Non-Kings Events

Ticket surcharges are a self-imposed levy on admission tickets to events. AEG shall charge a 5.0% ticket surcharge on all events held at the ESC. The estimated annual revenue is \$3.74 million based on a rate of 5%; however, the amount of revenue would depend on the number of events, the ticket prices, and attendance. Ticket surcharge revenues would be received as tickets are purchased for each event.

Possessory Interest Tax

The proposed ESC will be owned by the City and leased to a private operator, AEG. The value of the private operator's right to possess the property (the leasehold interest) is subject to payment of the possessory interest tax. Valuing possessory interests for property tax purposes is a complex process and subject to a number of variables including the lease and any sublease structure, term of the lease, rights conferred on the lessee, market value of those rights, and a number of other factors. Ultimately the Sacramento County Assessor's Office will determine the possessory interest tax through their valuation process. Only the City portion of the possessory interest tax would be used for backfill of the General Fund.

New Premium Parking Facility Property Taxes

The New Premium Parking Facility developed will pay property taxes to the City. These new taxes will directed to the City General Fund backfill.

ESC Taxes – (Sales/Utility)

Sales in the ESC will generate new sales tax revenues for the City. Additionally, the facility will pay Utility User Taxes. The combined contribution of these two sources is estimated at \$300,000 a year.

City Profit from ESC Operations

Under the Term Agreement, AEG has agreed to profit sharing with the City. The initial \$1 million paid under that agreement would be committed to the City's General Fund.

Parking System Assets

The City's Parking System Assets will be available to backfill the City's General Fund to cover the remaining financial gap. Additionally, the Parking System could cover any shortfall that may exist over the term of the ESC agreements. As mentioned earlier, the proceeds from the monetization of the City's parking assets could provide sufficient funding to cover the loss of parking revenues during the ESC construction period.

Section 7: Next Steps

Following Council action, staff will prepare the following agreements and contracts necessary to move forward with the development of the ESC:

- Predevelopment agreement (30 days)
- Contract with environmental consultants (30 days)
- Contract with development consultant (owner's representative -ICON Venue Group/ David S. Taylor Interests, Inc.) (30 days)
- Contract with Barrett Sports Group (30 days)
- Contract for outside legal counsel (30 days)
- Results of stage 1 of the RFP process and completion of public sector model (60 days)
- Parking monetization costs for RFP process or public sector model (60 days) includes:
 - Contract with parking consultant
 - Contract with financial advisor
 - Contract for outside legal counsel



Attachment 2 Predevelopment Cost Detail

Project: New Sacramento Entertainment & Sports Complex
Client: City of Sacramento

Acct #	Description	Calendar Year 2012										Calendar Year 2013			Total PreDevelopment	
		March	April	May	June	July	August	September	October	November	December	January	February	March		
100.	START-UP EXPENSES															
	SUBTOTAL	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 700,000	
200.	SALES & MARKETING															
	SUBTOTAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ 200,000	\$ 200,000	\$ 100,000	\$ 50,000	\$ 650,000	
300.	LAND ACQUISITION & SITE DEVELOPMENT															
	SUBTOTAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
400.	DESIGN/PROFESSIONAL SERVICES															
	SUBTOTAL	\$ 598,545	\$ 623,545	\$ 543,545	\$ 418,545	\$ 782,089	\$ 782,089	\$ 782,089	\$ 777,089	\$ 777,089	\$ 772,089	\$ 905,507	\$ 905,507	\$ 905,507	\$ 9,573,233	
500.	LEGAL & GOVERNMENTAL SERVICES															
	SUBTOTAL	\$ 40,000	\$ 50,000	\$ 30,000	\$ 35,000	\$ 35,000	\$ 15,000	\$ 15,000	\$ 25,000	\$ 25,000	\$ 35,000	\$ 25,000	\$ 25,000	\$ 15,000	\$ 370,000	
600.	PROJECT ADMINISTRATION															
	SUBTOTAL	\$ 76,000	\$ 76,000	\$ 76,000	\$ 91,000	\$ 112,000	\$ 112,000	\$ 112,000	\$ 92,000	\$ 92,000	\$ 92,000	\$ 114,000	\$ 89,000	\$ 89,000	\$ 1,223,000	
700.	CONSTRUCTION															
	SUBTOTAL	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 520,000	
750.	SYSTEMS & EQUIPMENT															
	SUBTOTAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
800.	PERMITS, TESTING, FEES, TAXES & SPECIAL ASSESSMENTS															
	SUBTOTAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
900.	INSURANCE, FINANCING & TRANSACTION COSTS															
	SUBTOTAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
	Owner Contingency (Recommend 5%)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
TOTAL PROJECT BUDGET		\$ 814,545	\$ 849,545	\$ 749,545	\$ 644,545	\$ 1,029,089	\$ 1,009,089	\$ 1,009,089	\$ 994,089	\$ 1,094,089	\$ 1,179,089	\$ 1,324,507	\$ 1,199,507	\$ 1,139,507	\$ 13,036,233	
	Cumulative:	\$ 814,545	\$ 1,664,089	\$ 2,413,634	\$ 3,058,178	\$ 4,087,267	\$ 5,096,356	\$ 6,105,445	\$ 7,099,534	\$ 8,193,623	\$ 9,372,712	\$ 10,697,219	\$ 11,896,726	\$ 13,036,233		



Attachment 3

**SACRAMENTO ENTERTAINMENT AND SPORTS COMPLEX
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This Term Sheet sets forth the basic terms of proposed agreements between the parties with respect to the location, financing, ownership, design, development, construction, operation, use, and occupancy of a new, first class, state-of-the art, multi-purpose entertainment and sports complex (ESC), that will serve as the home of the NBA’s Sacramento Kings and will also host family shows, concerts, sporting events, community oriented events, and numerous other events. The parties acknowledge that this Term Sheet is not a binding agreement, and that final terms will be incorporated into definitive legal documents which will govern the proposed transaction and will be subject to approval by each party. The parties intend to negotiate definitive legal documents concerning the ESC which shall contain the basic terms set forth herein, together with such other terms as are mutually agreed upon (consistent with this Term Sheet) and as are customarily included in similar agreements for the location, financing, ownership, design, development, construction, operation, use, and occupancy of comparable facilities. The parties intend that the planning, design, development and construction of the ESC will be led by the City of Sacramento which will have final decision making authority, subject to the provisions included herein, but that the entire process be a cooperative, mutual endeavor in which the parties actively participate and work together, in good faith and with due diligence – a public/private partnership.

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	The ESC shall be owned by a public sector entity. The City is continuing to evaluate potential ESC ownership options. The ownership structure, as determined by the City, shall be detailed in the definitive legal documents which may include appropriate refinements to the terms set forth in this Term Sheet to reflect the final ownership structure, provided that the ownership structure shall not adversely affect the Team or AEG.
Location	The ESC shall be located on land owned in part by the City and may include land currently owned by Inland American at the downtown rail yards. The land parcels are commonly referred to as the City Intermodal Parcel and Inland American Lot 40. The City shall ensure that the site contains sufficient acreage to operate the ESC as contemplated herein. The parties may consider other locations at the rail yards site, and elsewhere, by mutual agreement. See Exhibit 1 for a rendering that illustrates the proposed location of the ESC.
Description	The ESC shall be a new, first class, state-of-the art, multi-purpose entertainment and sports complex that will serve as the home of the Kings and will also host family shows, concerts, sporting events, community oriented events, and numerous other events.

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	<p>See Exhibit 2 for a summary description of the preliminary program elements. The definitive agreements will contain a more detailed description of program elements.</p>
Sources and Uses of Funds	<p>Except as otherwise specified herein, each party shall be solely responsible for securing its financing and other funding sources required for the planning and development of the ESC as outlined herein.</p> <p>The preliminary sources and uses of funds to develop the ESC are summarized in Exhibit 3.</p>
1997 Lease Revenue Bonds	<p>The City, in coordination with the Kings, shall retire the 1997 Lease Revenue Bonds issued by the Sacramento City Financing Authority. The City (or a Financing JPA) shall issue new bonds in an amount sufficient to pay all principal, interest, and other amounts (including interest swap penalties (if any)) necessary to retire the 1997 Lease Revenue Bonds, on terms and conditions generally comparable to the terms and conditions of the 1997 Lease Revenue Bonds. The Kings shall make timely payments in an amount sufficient to pay debt service associated with the new bonds to be issued to retire the 1997 Lease Revenue Bonds. Payment shall be made regardless of labor disturbances (strike/lockout) or other force majeure events. The Kings shall provide adequate security or collateral (or a combination thereof) ("Security") for repayment of the bonds, which may include an ESC lockbox mechanism to capture revenues to pay annual debt service. For purposes hereof, "adequate" shall mean the value of the Security, applying reasonable risk assessment standards to such Security, which, if such Security were liquidated, would yield sufficient proceeds to repay all amounts outstanding on the bonds. If the City and the Kings cannot agree upon the components of adequate Security, such determination shall be made by an independent investment banking firm specializing in municipal finance.</p>
ESC Development Team	<p>The City entered into an agreement on September 27, 2011 to negotiate exclusively with ICON/Taylor for a predevelopment agreement covering the ESC. The agreement specifies that the City and ICON/Taylor intend to work together in a collaborative and cooperative manner to explore opportunities and approaches that will allow for the development of the ESC in a fiscally responsible manner. The City intends to work with a development team that includes ICON/Taylor, AEG, the Team, the NBA, Populous, and Turner to develop the ESC.</p>
ESC Development	<p>The City, together with ICON/Taylor, shall be responsible for all phases of the planning, environmental review, design, development, and construction of the ESC and related infrastructure. Development of the ESC shall be subject to the</p>

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	<p>approvals of the parties. Standards, requirements, and timing related to design, development, and construction of the ESC shall be established in the definitive legal documents.</p> <p>The parties intend that the entire project will be conducted as a cooperative, mutual endeavor in which the parties actively participate and work together with due diligence and in a good faith partnership. The City will put in place and manage a design approval process for the ESC whereby all parties will have direct input and will participate in developing a design that achieves the best possible project within the agreed program description and project budget. The Parties will collectively have the right to approve (or disapprove) the ESC design at various stages of the design process, including schematic design, design development, and construction document phases of the project. The City will implement a similar process for project design and construction change orders.</p> <p>The ESC preliminary program is contained in Exhibit 2 which sets forth the intended size and components to be implemented through the design and construction of the project. The ESC shall be constructed in accordance with the program elements and the Quality Standard (as defined below), subject to recognition of the overall size of the ESC reflected in the program elements. The “Quality Standard” for the ESC shall be first-class and state of the art, comparable to other NBA facilities including Amway Center (Orlando), Barclay’s Center (Brooklyn), Chesapeake Energy Arena (Oklahoma City), and Pepsi Center (Denver). The standard of quality and design of the project shall be comparable, taken as a whole, to the standard of quality used in the design and construction of the facilities above. The ESC design and construction must comply with NBA Standards, including those related to arena technology and guest experience.</p> <p>The City intends to retain ICON/Taylor to manage and oversee a project delivery team to include Populous and Turner that would design, develop, construct, and commission the ESC pursuant to definitive legal documents to be developed. The specific roles, terms, and conditions of ICON/Taylor, Populous, and Turner would be subject to final negotiations among the parties.</p>
Schedule	The parties shall work cooperatively and make commercially reasonable efforts to open the ESC by September 2015.
Pre-Development Expenses	The City shall fund 50% and the Kings and AEG shall each fund 25% of pre-development expenses. The identification and schedule for pre-development expenses shall be determined in the pre-development agreement to be entered into by the parties by April 3, 2012. In the event the ESC is not developed for any reason other than the fault of AEG, the Kings shall reimburse AEG for its

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	pre-development expense payments on a schedule to be determined.
Completion Guarantee and Cost Overruns	<p>ICON/Taylor, Populous, and Turner intend to work together using an At-Risk Design Build project delivery method with Turner providing a project completion guarantee in accordance with the schedule referred to above, and cost overrun protection covering all design, construction, furniture, fixtures, and equipment (FF&E) and commissioning for the ESC. The Turner contract will be based on a designated set of design documents that have been approved by the parties. Any changes requested by the parties as the project continues through the design and construction phases that would result in additional costs would be paid for by the party that requests the change. The project delivery guarantee shall include separate written guarantees, in form and substance satisfactory to the parties, that the ESC will be completed and such guarantee would be backed by Turner Corporation, parent of Turner Construction Company. The terms and conditions of the project completion guarantee and cost overrun protection, including specific inclusions and exclusions, would be subject to final negotiations among the parties, and must be approved by the City in its sole discretion. Cost overruns (if any) associated with items not covered by the Turner contract (e.g. land acquisition, project management fees, and permits/fees) shall be the responsibility of the City. To the extent that the Turner completion guarantee and cost overrun protection is not satisfactory to the City, the parties will revisit this issue; however, no party shall be obligated to incur responsibility to incur cost overruns.</p>
Non-Compete – Power Balance Pavilion	The Kings shall not operate, or allow others to operate, Power Balance Pavilion in competition with the ESC.
Non-Relocation – Kings	<p>The Kings will enter into a binding and enforceable non-relocation agreement with the City that will include standard specific performance and injunctive relief provisions, pursuant to which the Kings will irrevocably and unconditionally commit and guarantee to play all its home pre-season, regular season, and post-season games at the ESC for a term of 30 years (subject to a limited number of league-approved neutral site games and other customary exceptions). The non-relocation agreement will contain further customary terms that prohibit the Kings from relocating from the City and require the Kings to maintain its NBA Membership during such term. The Kings shall not relocate from the City, shall not apply to the NBA to transfer to another location outside of the City, shall not enter into or participate in any negotiations or discussions with, or apply for, or seek approval from, third parties with respect to any agreement, legislation or financing that contemplates or would be reasonably likely to result in, any breach of the non-relocation agreement, and shall have no right to terminate the non-relocation agreement during the term of the agreement, in each case except as provided in the definitive non-relocation agreement.</p>

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Management – AEG	AEG shall manage and operate the ESC on behalf of the City pursuant to the terms of a management agreement. The ESC shall be operated in a first class manner, similar to and consistent with that of other comparable facilities that serve as the homes of NBA teams. AEG shall be solely responsible for all aspects of the ESC operation (including the booking of non-Kings events). City oversight roles, responsibilities, and use shall be determined in the definitive legal documents. Except for collateral assignments to lenders, AEG shall not assign any of its rights under this provision without the approval of the City, in its reasonable discretion.
Management – Term	AEG shall manage and operate the ESC on behalf of the City for a minimum term of 30 years pursuant to the terms of a management agreement between AEG and the City.
Capital Contribution – Timing	The parties shall determine the timing of the capital contributions for ESC development and construction in the definitive legal documents.
Capital Contribution – AEG	AEG shall pay \$58,750,000 towards development and construction of the ESC. Such amount shall include pre-development expenses paid by AEG as described above. AEG shall have the right, but not the obligation, to obtain private financing for up to a maximum of \$33,750,000. AEG may utilize ESC revenue streams that it is entitled to as security for its private financing. The City shall reasonably cooperate with AEG to facilitate the private financing of a portion of AEG’s Capital Contribution including customary lender protection and/or rights; however, the City shall not be required to incur any costs or provide any form of credit enhancement to facilitate such private financing. AEG shall not be responsible for constructing the ESC.
Capital Contribution – Kings	The Kings shall pay \$73,250,000 towards development and construction of the ESC. Such amount shall include pre-development expenses paid by the Kings as described above. The Kings shall have the right, but not the obligation, to obtain private financing for its Capital Contribution. The Kings may utilize ESC revenue streams that it is entitled to as security for its private financing or other obligations. The City shall reasonably cooperate with the Kings to facilitate the private financing of its Capital Contribution including consideration of customary lender protection and/or rights; however, the City shall not be required to incur any costs or provide any form of credit enhancement to facilitate such private financing. The Kings shall have the right, but not the obligation, to utilize proceeds from the sale of its approximately 85 acres of land at the site in North Natomas toward its Capital Contribution or other uses. The Kings shall not be responsible for constructing the ESC.
Capital	The City shall identify, provide, or cause other public and/or private entities to

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Contribution – Other	provide a total of \$255,525,000 and an estimated \$3,000,000 from a capital campaign toward the planning, design, development and construction of the ESC. Such amount shall include pre-development expenses paid by the City as described above. The City shall identify, provide, or cause other public and/or private entities to provide sufficient funds to pay for necessary infrastructure improvements to provide reasonable access to and from the ESC. The City may approach other regional partners to identify alternative funding sources to support the City’s investment outlined herein. The preliminary sources and uses of funds for the ESC are summarized in Exhibit 3.
Use and Occupancy	<p>AEG shall manage the ESC on behalf of the City. The ESC will serve as the home of the Kings and will also host family shows, concerts, sporting events, community oriented events, and numerous other events. The parties shall use commercially reasonable efforts to market the ESC aggressively to promote activity and economic development in the area.</p> <p>The Kings shall have priority in scheduling NBA games at the ESC. Subject to ESC availability, the Kings may use the ESC for practices and other Team and/or event related activities or events (collectively with Team games, Kings Events), the scheduling of which will be provided for in the definitive legal documents. There shall be no restriction on the ability of the Kings at any time to use any practice facility built into the ESC.</p> <p>The City shall be permitted to use the ESC to host up to 12 civic-oriented events per year that do not conflict with other previously scheduled events (City Events). The City shall not contract this right to third parties that would customarily contract directly with the venue operator in publicly owned facilities. AEG and the City shall cooperate and work together to provide the Sacramento Convention and Visitors Bureau (SCVB), the Sacramento Convention Center, and similar entities with access to the ESC subject to the limitations above. The City will have the right to schedule City Events in advance based on ESC availability. For City Events, the City shall: 1) pay no rent, 2) retain all event related revenues, and 3) only be required to pay the incremental costs incurred by the ESC. The City shall also have the right to utilize the ESC for small meetings, banquets, etc. (City Minor Events) as long as such events do not conflict with other previously scheduled events subject to ESC availability and on terms to be mutually agreed by the parties.</p>
Ticket Surcharge	AEG shall charge a 5.0% ticket surcharge on all events held at the ESC. The ticket surcharge shall be applied to all paid tickets sold, including tickets to club seats (including loge boxes) but excluding tickets to suites (except as provided below),- and shall be paid by the respective event. In the case of suites, the ticket surcharge shall only be applied to non-Kings Events that have an established

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	<p>ticket price separate from the annual suite license fee. All ticket surcharge revenue collected from ESC events shall be disbursed to the City each month by the respective party (AEG, Kings, Etc.). The City shall retain all revenue generated by the ticket surcharge, except as otherwise provided herein.</p>
<p>Agreement with AEG</p>	<p>No later than April 15, 2012, the Kings and AEG shall enter into a memorandum of understanding or term sheet outlining the principal business terms for a 30 year lease agreement under which the Kings will play their home games in the ESC, containing the following principal terms and other terms to be negotiated:</p> <ol style="list-style-type: none"> 1. Except as otherwise provided, the Kings shall control and retain all revenues relating to Kings Events and the Team’s operations, including revenues from the sale of tickets, broadcast and other media rights, Team game day inventory, such as rotating and other customary temporary signage (including a reasonable allocation of LED signage to be agreed upon), on court promotions, seat backs, pole pads etc., and other revenues typically retained 100% by an NBA team. 2. With respect to sales of suites and other premium seating, the Kings shall receive the value of tickets (to be agreed upon) to Kings Events; additional revenues from such sales, net of expenses (to be agreed upon), shall be divided 50% to the Kings and 50% to AEG. 3. AEG shall have the exclusive rights to sell arena signage and naming rights. The parties shall agree on the number of exclusive categories. The Team shall contribute an agreed upon level of game day team inventory to such sales and the revenues from such sales, net of direct expenses, shall be divided 50% to the Kings and 50% to AEG. 4. The Kings shall retain 100% of net food and beverage and merchandise revenues during Kings Events. 5. The Kings shall be responsible for game day operating expenses in connection with Kings Events. 6. AEG shall be responsible for Annual Operating Expenses of the ESC, as described below. 7. Subject to the provisions outlined herein and in the definitive legal documents, the Kings shall be bound by the terms of the ESC’s exclusive ticketing agreement for the duration of the lease. The initial ticketing agreement between the ESC and its ticketing provider shall be for a duration of no more than 10 years. ESC shall retain any and all fees related to the distribution of tickets in the primary market.

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	<p>The definitive legal documents shall be structured to ensure that the rights and obligations of the parties under the Agreement with AEG shall be preserved.</p>
Naming Rights	<p>Any name proposed to be associated with the ESC shall be tasteful and not to be a cause for embarrassment to the City and shall not include any companies primarily known for tobacco products, etc.</p>
Parking	<p>The Kings shall retain net parking revenues from City owned or controlled parking garages and lots for Kings Events (excluding County of Sacramento (“County”) garages or lots). The identification of such garages and lots, and the methodology to determine parking revenues directly attributable to Kings Events, shall be determined in the definitive legal documents.</p> <p>To the extent parking revenues received by the Kings from City owned or controlled facilities is less than \$2,640,000 in any ESC operating year (subject to annual escalation following the opening of the ESC to be determined in the definitive legal documents) (the Base Parking Amount), the Kings shall receive the proceeds of ticket surcharges received by the City from non-Kings Events, but only to the extent such surcharges exceed \$1,100,000 in that operating year (subject to annual escalation following the opening of the ESC to be determined in the definitive legal documents). To the extent such parking revenues payable to the Kings from City owned or controlled facilities would be more than the Base Parking Amount in any ESC operating year, the City shall retain the excess.</p> <p>Except for Kings Events, the City shall retain net parking revenues from City owned or controlled parking garages and lots during all other events.</p>
Premium Seating Parking	<p>The City shall construct a parking structure for premium seat holders adjacent to the ESC that will contain at least 1,000 spaces and otherwise be reasonably satisfactory to AEG and the Team. The City intends to enter into an agreement with David S. Taylor Interests, Inc. and CIM Group (“Taylor/CIM”) whereby Taylor/CIM would finance and construct the premium parking structure. The preliminary sources and uses of funds to develop the premium seating parking structure are summarized in Exhibit 4. The City shall not charge an additional fee over and above the premium seating license fee to the Kings or premium seat holders for use of the parking structure and shall pay all costs associated with the construction, operation and maintenance of the parking structure, provided that AEG shall agree to pay for access to spaces in the parking structure at then current market rates (to be agreed upon). The City shall use commercially reasonable efforts to complete the parking structure by the opening of the ESC, and in any event shall complete the parking structure no later than the beginning of the third NBA season to be played in the ESC.</p>

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	<p>If the parking structure is not completed by the opening of the ESC, the parties shall identify alternative temporary location(s) reasonably acceptable to AEG and the Kings.</p>
Other Event Revenues	<p>Except for City Events and Kings Events, AEG shall receive all revenues from all other events.</p>
Property Taxes	<p>AEG shall pay any and all property taxes (including taxes on possessory interests) associated with all real property interests in the ESC. The Kings shall reimburse AEG for 50% of any such real property taxes. Each party shall be responsible for its own personal property and any other taxes related to its operations and income.</p>
Targeted Taxes	<p>The City shall not impose on all or any portion of the ESC or the Team any targeted or special taxes or assessments, including special district taxes or assessments. The ESC will be subject to all City taxes or assessments of general applicability.</p>
Annual Operating Expenses	<p>AEG shall be responsible for all annual operating expenses and routine maintenance and repairs (Annual Operating Expenses) of the ESC. By way of illustration and not limitation, Annual Operating Expenses include:</p> <ul style="list-style-type: none"> • Salaries, wages and benefits • Routine maintenance • Routine repairs • Insurance • Utilities • Supplies and equipment • Human resources • Training • Contract labor • Setup/tear down • ESC marketing/promotion • Premium seating marketing/promotion • Non-event security • Non-event cleaning • Telephone • Professional services (e.g. legal, accounting, etc.) • Travel/lodging • Equipment rental • Taxes/permits/fees/licenses

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	<ul style="list-style-type: none"> • Dues and subscriptions • Public relations • Common area maintenance/landscaping • Unreimbursed event expenses • Unfunded pre-opening expenses (Year 1) • Others <p>The City shall have no responsibility for any operating expenses of the ESC (except for incremental, out-of-pocket expenses associated with City Events). City oversight roles, responsibilities, and use shall be determined in definitive legal documents.</p>
Capital Repairs	<p>AEG shall be responsible for making (or causing others to make) any and all ESC capital repairs, replacements, and improvements (Capital Repairs). Identification of ESC capital repairs, replacements, and improvements shall be determined by AEG, subject to the reasonable approval of the City. However, AEG shall maintain the ESC in a first class manner so as to cause it to remain in a condition comparable to that of other NBA facilities of similar size, design, and age, ordinary wear and tear excepted. City oversight roles and responsibilities shall be determined in definitive legal documents. Capital Repairs shall be paid out of the Capital Repairs Reserve Fund (see below). To the extent that the Capital Repairs Reserve Fund balance is insufficient to pay for required Capital Repairs, the parties shall fund any shortfalls as follows:</p> <ol style="list-style-type: none"> 1. City – 50.0% 2. AEG – 50.0%
Capital Repairs Fee	<p>AEG shall charge a \$1.00 per ticket Capital Repair Fee on paid tickets for all events to pay for capital repairs, replacements, and improvements of the ESC during the term of the management agreement. The Capital Repair Fee shall be subject to annual escalation to be determined in the definitive legal documents. The Kings shall remit any Capital Repair Fees it collects directly to the Capital Repairs Reserve Fund. All other Capital Repair Fees collected from ESC events shall be remitted to AEG within 10 business days following such events by the respective party.</p>
Capital Repairs Reserve Fund	<p>AEG shall deposit all Capital Repair Fee revenue into a segregated and dedicated Capital Repairs Reserve Fund for capital repairs, replacements, and improvements to the ESC. Any surplus in the Capital Repairs Reserve Fund upon termination of the AEG management agreement (including any extensions thereof) shall be determined in the definitive legal documents. Any surplus from the construction of the ESC shall be deposited into the Capital Repairs Reserve Fund upon completion of the ESC.</p>

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Municipal Services	<p>Customary police, traffic control, and other similar City-based services (Municipal Services) for all ESC events shall be provided by the City at a general level and manner appropriate for ESC events. The Kings shall be responsible for any and all costs incurred by the City for Municipal Services provided for Kings Events on terms to be set forth in the definitive legal documents. The Kings and the City, shall cooperatively determine appropriate public and private staffing levels for police/security, traffic control, fire prevention, emergency medical, street cleaning/trash removal and other similar services based upon anticipated attendance for Kings Events held at the ESC; however, the City shall have final approval over appropriate staffing and service levels. The City shall use a "reasonableness standard" in determining appropriate staffing and service levels. In the event that the parties cannot agree on appropriate staffing and service levels, the Team shall have the right to submit such dispute to a mutually agreed upon mediator or to arbitration for accelerated dispute resolution. Notwithstanding the foregoing, if the City determines that an emergency public safety issue exists with respect to a particular Kings Event, the City shall have the right to determine and impose the staffing level for such event. AEG shall insure that other events shall be responsible for any and all costs incurred by the City for Municipal Services provided. ESC shall be granted similar rights as the Kings as outlined above with respect to events other than Kings Events. The terms and costs of these Municipal Services for events other than Kings Events shall be provided on terms that are no less favorable than those provided for Kings Events, taking into consideration the expected attendance and nature of the event.</p>
Team Name	<p>The Kings shall include "Sacramento" as the first part of the Team's name. For example, the Team must be named the "Sacramento ____". The Kings may not include any other geographic, City, County, or State reference in the Team name. The Kings shall reasonably reference Sacramento in public statements (whether marketing, advertising, or otherwise).</p>
Corporate Headquarters	<p>The Kings shall maintain their corporate headquarters within the City limits.</p>
Team Transfer	<p>Upon any sale or other transfer of all or substantially all of the assets of the Team (including the Kings NBA membership) prior to execution of definitive legal documents, the new owner must assume any and all obligations of this Term Sheet. Except as provided above, any assignment of any party's rights under this Term Sheet is subject to the other parties' consent in their sole discretion.</p>
Affordable Programs	<p>The Kings shall make reasonable efforts to provide attractive and meaningful programs to keep the NBA affordable for families in the Sacramento region.</p>

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Vendor Rights	AEG shall be solely responsible for identifying and entering into third party vendor contracts for the ESC. Upfront proceeds from third party vendors to the ESC shall require the approval of the City and the Kings; however, AEG shall be entitled to retain up to \$4 million of upfront proceeds as part of its agreement with its concessionaire, which shall be for a duration not exceeding 10 years. Third party vendor agreements shall: reflect market rate terms, be generally consistent with agreements in comparable facilities, and, subject to parameters to be defined in the definitive legal documents, shall require approval of the City and the Kings, not to be unreasonably withheld or conditioned. The City shall be a party to material third party vendor agreements, subject to parameters to be defined in the definitive legal documents.
Agreements with AEG Affiliates	Any agreements with AEG, or any of its affiliates, shall: reflect market rate terms, be generally consistent with agreements in comparable facilities, and, in the case of material agreements to be defined in the definitive legal documents, require approval of the City and the Team, not to be unreasonably withheld or conditioned. The City shall be a party to any material agreements with AEG, or any of its affiliates, subject to parameters to be defined in the definitive legal documents.
NBA All Star Game	The Team shall request that the NBA host the NBA All Star Game at the ESC within three years of opening.
Internet	<p>AEG shall provide the City with a banner on the ESC website. Such banner shall serve as a link to the City's internet home page.</p> <p>The Kings shall provide the ESC with a banner on the Team's website. Such banner shall serve as a link to the ESC's internet home page.</p>
Public Sector Suite	The City shall have an option to use one complimentary, furnished luxury suite at the ESC (location to be agreed upon), including tickets and preferred parking to all events included as part of a typical license agreement, for any official City purpose during the term of the management agreement. The Kings shall provide suite tickets for Kings Events in the Public Sector Suite at no cost to the City or AEG. Distribution of tickets to the City suite will be subject to the City's ticket distribution policy.
Public Sector Tickets	The Kings shall provide the City 10 complimentary tickets per Kings Event (location to be agreed upon) for any official City purpose during the term of its use agreement. Distribution of tickets will be subject to the City's ticket distribution policy.
Operating Profit	Operating Profit shall be the difference between: a) all revenues retained by AEG

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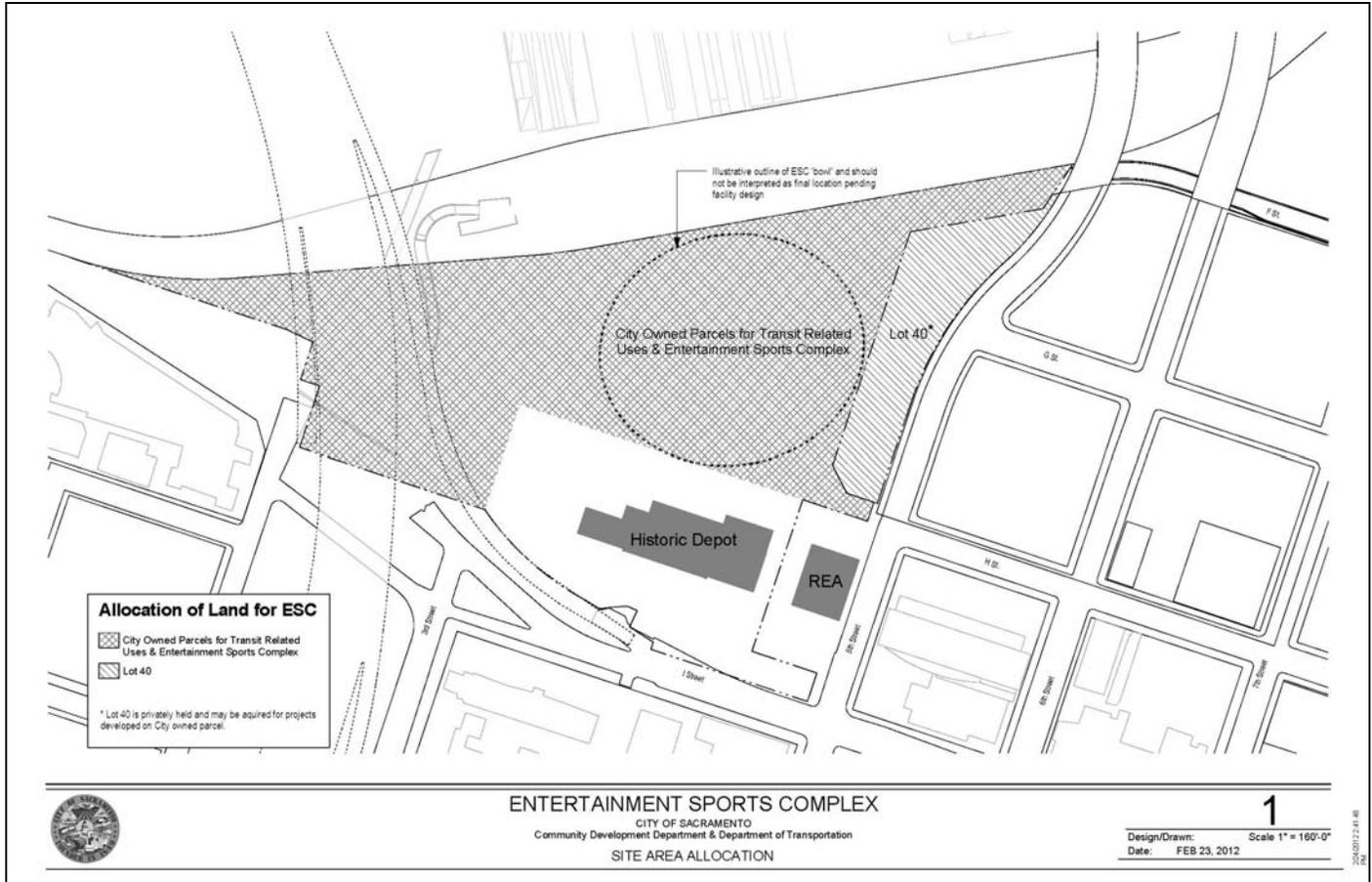
Definition	relating to the operation of the ESC, including but not limited to: rent, concessions revenue, merchandise revenue, premium seating revenue, naming rights revenue, sponsorship revenue, ticketing handling fees and rebates, facility fees (except those earmarked for Capital Repairs Reserve Fund), interest income, handling fees, etc. less: b) all unreimbursed Event Expenses and Annual Operating Expenses paid by AEG relating to the operation of the ESC.
Operating Profit Allocation (Waterfall)	<p>Operating Profits shall be allocated by AEG on an annual basis as follows:</p> <ul style="list-style-type: none"> – First \$10,000,000 (escalated annually by CPI) to be allocated 85% to AEG and 15% to City. – Next \$5,000,000 (escalated annually by CPI) to be allocated 70% to AEG and 30% to City. – Remainder to be allocated 50% to AEG and 50% to the City.
Natomas Land Use Entitlements	<p>The City will work cooperatively with the Kings to remove of record existing, mutual land use restrictions affecting approximately 85 acres of land at the site in North Natomas (Kings Land) and approximately 100 acres of adjacent land in North Natomas (City Land). The City agrees to expedite the process for obtaining "highest and best use" land use entitlements (including but not limited to General Plan Amendment, Community Plan Amendment, Rezone, Master Parcel Map and Infrastructure Financing Plan) consistent with City land use policies and the goals of the North Natomas Community Plan for all such land in anticipation of a sale or development of such land by the Kings or the City, respectively.</p> <p>The City and the Kings will consider entering into a joint planning, entitlement, land sale, cost and revenue sharing agreement relating to such land. In the event the parties elect to sell the parcels under a joint agreement, the net proceeds shall be allocated pro rata, based on the number of acres owned by each party, less any site specific costs, including: demolition of Power Balance Pavilion and other associated structures; demolition of baseball stadium foundation; cost of removing reciprocal easements; costs of all entitlement and EIR including, but not limited to, all pre-planning, engineering, CEQA consultants, and litigation defense (if any); community outreach costs; mitigation costs required under the EIR; and, marketing costs/commissions, among others. However, environmental contamination remediation and disposal shall be borne by the individual property owner and not shared. Any existing fees, penalties, or other liabilities are to be paid in full and borne by the responsible party.</p> <p>If no such joint agreement is reached to sell such land, each party will independently plan, entitle and sell its property and pay its respective costs and expenses incurred in obtaining such entitlements. Each party shall retain the</p>

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	proceeds from the sale of its respective land if sold independently.
Non-Discrimination	AEG and the Kings agree to comply with the City's non-discrimination code requirements.
Confidentiality	The City agrees not to disclose, and to cause its affiliates and representatives not to disclose, to any third party any financial information or other confidential information provided to it pursuant to this agreement or the definitive legal documents.

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**EXHIBIT 1
LOCATION**



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**EXHIBIT 2
PRELIMINARY PROGRAM DESCRIPTION**

SACRAMENTO ESC PROGRAM SUMMARY	
Basketball Capacity (Minimum)	18,500
Suites (Standard/Super/Mini/Other)	50 to 70
Party Suites	4
Loge Seats	192
Ledge Seats	80
Club Seats	1,430
Courtside Club Seats	330
Space Type	Gross Square Feet
Classification 1: Spectator & Arena Bowl Facilities	150,180
Classification 2: Premium Facilities	59,808
Classification 3: Circulation	193,826
Classification 4: Food, Retail, & Spectator Facilities	107,297
Classification 5: Team Facilities & Practice Facility	51,337
Classification 6: Administration	26,207
Classification 7: Media Facilities	14,385
Classification 8: Event Facilities & Operations Support	90,657
Classification 9: Parking	TBD
Estimate of Gross Building Square Footage (G.S.F.)	693,697

Source: ICON.

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**EXHIBIT 3
 SOURCES AND USES OF FUNDS – ESC**

Sources of Funds	
Parking Public-Private Partnership (P4)/Capital Campaign/Other	\$258,525,000
Sacramento Kings	\$73,250,000
ESC Operator	\$58,750,000
Sources of Funds - Total	\$390,525,000
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	\$390,520,988
Surplus/(Deficit)	\$4,012

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EXHIBIT 4
SOURCES AND USES OF FUNDS – PARKING STRUCTURE

Sources of Funds			
Master Owner Participation Agreement (MOPA) Funds (Estimated)			\$14,500,000
David S. Taylor Interests, Inc./CIM Group Equity (Estimated)			\$10,500,000
Sources of Funds - Total			\$25,000,000
Uses of Funds			
	<i>Spaces</i>	<i>Cost/Space</i>	
Parking Structure (Estimated)	1,000	\$25,000	\$25,000,000
Uses of Funds - Total			\$25,000,000
Surplus/(Deficit)			\$0



DAVID S. TAYLOR INTERESTS, INC.

Attachment 4

February 29, 2012

Mr. John Dangberg
Assistant City Manager
City of Sacramento
915 I Street, 5th Floor
Sacramento, CA 95814

RE: ESC Premium Parking Facility & ESC Predevelopment Funding - Letter of Intent

Dear John;

The City intends to ensure that a Premium Parking Facility (“PPF”) will be constructed to serve its proposed entertainment and sports complex (“ESC”). This document serves as our Letter of Intent confirming our interest and willingness to develop the PPF. As used in this Letter of Intent, “Developer” refers to Taylor/CIM Redevelopment Company, LLC, which is the Developer entity within the Master Owner Participation Agreement (“MOPA”). The members of Developer are affiliates of David S. Taylor Interests, Inc. (“Taylor”) and CIM Group (“CIM”). As you know, MOPA funds are intended to facilitate the planning and implementation of projects in downtown Sacramento. In our view, the ESC is such a project.

The following terms are the key elements of our commitment to develop the PPF.

1. Developer proposes that \$5 million in MOPA funds be allocated by the City for ESC predevelopment expenditures, subject to terms outlined below and in exchange for the Developer’s five-year exclusive right to develop the City owned properties at 800 K Street + 801 L Street (“800 K/L”). Title to 800K/L will be transferred to the Developer upon approval by the City of the Developer’s proposed project(s) for 800 K/L.
2. Developer proposes to use MOPA funds and private debt and/or equity to finance and develop the PPF. The PPF is to include at least 1,000 parking spaces to be constructed on City owned property transferred to Developer at no cost, or on other privately owned property adjacent to the ESC site. Developer’s proposal is premised on the understanding that:
 - a. Anschutz Entertainment Group (“AEG”) will commit to use of PPF for premium seat holders and will purchase the required number of parking spaces for these seat holders

on an annual basis at then current market rates. Assumptions that are the basis of this usage include:

i. Premium Seat Holders

1. 48 regular suites* with 4 parking spaces each for all events (124 real events)
2. 20 mini suites* with 2 parking spaces each for all events (124 real events)
3. 48 loge boxes with 2 parking spaces each for all events (124 real events)
4. 1430 club seats with 0.5 parking spaces each for all Kings events (44 events, which are also included within the 124 real events noted above)
5. *Total number of suites may vary from 50 to 70 and will include some combination of regular, mini, and super suites.

b. AEG and Kings/NBA will not share in PPF revenues.

c. City's financial participation associated with use of MOPA funds for the development of the PPF will be similar in structure to its participation in Developer's prior MOPA transactions, on both an annual and terminal basis after threshold equity returns are achieved. Given the risks associated with this project, the Developer's threshold equity returns for the PPF will be higher than the thresholds in Developer's prior MOPA transactions, as agreed to by the parties.

3. Developer proposes that the balance of the MOPA funds (approximately \$14.5 million) be allocated by the City as follows:

a. **If the ESC project occurs and the Developer develops the PPF**, the balance of the MOPA funds may be used for development of the PPF. If some MOPA funds remain after development of the PPF, the remaining MOPA funds will, at the City's election:

- i. Continue to be subject to the terms of the MOPA, or
- ii. Be used by the City for the ESC project in exchange for:
 1. The transfer (to the Developer) of title to City owned real estate assets which have value consistent with the amount of remaining MOPA funds, including but not limited to residual development related to the ESC, or
 2. Some other consideration agreed upon by the City and the Developer

b. **If the ESC project occurs and the Developer does not develop the PPF**, the balance of the MOPA funds will, at the City's election:

- i. Remain in the MOPA fund subject to the terms of the MOPA, or

- ii. Be used by the City for the ESC project, in exchange for the transfer (to the Developer) of title to City owned real estate assets which have value consistent with the amount of remaining MOPA funds, including but not limited to residual development related to the ESC, or
- iii. Be used by the City for the ESC project and then reimbursed by the City to the MOPA fund prior to the completion of the ESC project, after which they will be subject to the terms of the MOPA.

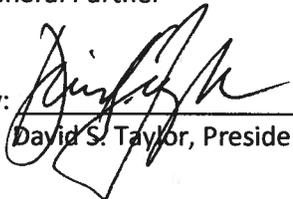
c. **If the ESC project does not occur**, the balance of the MOPA funds will remain in the MOPA fund subject to the terms of the MOPA.

- 4. Developer proposes that promptly following City's receipt and acknowledgment of this Letter of Intent, the City will take action to extend all applicable Target Dates and Outside Completion Dates set forth in the MOPA by 180 days.

Taylor/CIM Redevelopment Company, LLC
a California limited liability company

By: Taylor K Street Partners II, L.P.
A California Limited Partnership
Managing Member

By: David S. Taylor Interests, Inc.,
A California corporation
General Partner

By: 

David S. Taylor, President