

**Meeting Date:** 4/22/2014

**Report Type:** Staff/Discussion

**Report ID:** 2014-00306

**Title: Overview and Explanation of Future Council Consideration for the Entertainment and Sports Center**

**Location:** Downtown Plaza/District 4

**Recommendation:** Receive and file.

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**Presenter:** John Dangberg, Assistant City Manager, (916) 808-1222; Desmond Parrington, ESC Project Manager, (916) 808-5044, Office of the City Manager

**Department:** City Manager

**Division:** Executive Office

**Dept ID:**

**Attachments:**

1-Description/Analysis

2-Background

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### **City Attorney Review**

Approved as to Form

Michael W. Voss

4/21/2014 3:12:09 PM

### **Approvals/Acknowledgements**

Department Director or Designee: John Dangberg - 4/21/2014 12:23:50 PM

## Description/Analysis

**Issue Detail:** In late March 2013, the City Council approved a non-binding Preliminary Term Sheet (Term Sheet) for a public-private partnership between the City of Sacramento and the Sacramento Kings' new ownership group for the potential location, financing, ownership, design, development, construction, operation, use, and occupancy of a new, first class, state-of-the art, multi-purpose entertainment and sports center (ESC) 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.

The purpose of the 2013 Term Sheet was two-fold. First, the National Basketball Association (NBA) was evaluating options regarding the future home of the Kings franchise. The Term Sheet was submitted to the NBA to assist it in its due diligence and decision-making process. Second, in the event that the NBA approved the new Sacramento-based team ownership and ESC plan, the Term Sheet set forth the process and framework for further due diligence, negotiation of final terms, preparation of definitive documents, planning approvals and other items to be subsequently considered by the City Council.

Since the NBA's April 2013 approval of the new Sacramento-based ownership group Sacramento Basketball Holdings (SBH), the City and the SBH have completed the requisite due diligence, and are preparing the definitive legal agreements, planning entitlements, environmental review, and other items for consideration by the City Council. The City Council is scheduled to consider these items on May 13, 2014. Given that some of the terms described in the Term Sheet have been modified and given the volume of the documentation, this report is an additional step in the process to assist in the public's understanding and review of the actions to come

The purpose of this report is to provide an overview of the primary deal terms and the basic structure of the entitlements, definitive documents, and key agreements. This is an overview report and is not intended to go into details, nor does it include draft copies of the final project documents that are currently being finalized. This is simply a primer to understanding the "big picture" and to be prepared for the actions and documents to be more fully considered by the Council in the coming weeks.

The public release of the project documents and staff reports is scheduled for May 1 and the City Council is scheduled to consider and take action on May 13. The May 1 release of the report exceeds the City's 10-day contract review period for City contracts over \$1 million. Staff intends to have all documents, including those only requiring a 72-hour agenda posting, available for public review for an extended 13-day period.

This report and the companion report on financing will provide a high level outline of the actions being brought to the City Council for consideration. This report includes an overview of the proposed final basic terms, a description of the definitive agreements, and a description of the planning entitlements. A companion finance report provides an overview of the public financing structure.

## Report Organization

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

- Section 1: Summary Overview of Terms
- Section 2: Description of Project and Finance Agreements
- Section 3: Description of Planning Entitlements

**Policy Considerations:** The development of the Entertainment and Sports Center is a complex project with a volume of documents. To provide the public with an understanding of the project documents and actions under consideration by the City Council, this report provides an overview of the proposed terms, related documents, financing (see also the companion finance report) and other items.

**Economic Impacts:** Economic impacts will be reviewed in the individual reports to be presented on May 13, 2014.

**Environmental Considerations:** Review of this report and discussion of the ESC project without formal action is not subject to review under the California Environmental Quality Act (CEQA). The proposal for development of the arena, including any demolition, construction and operation of the facility, is evaluated in an Environmental Impact Report (EIR) that includes a complete project description, identification of potential significant effects, mitigation requirements, and an evaluation of alternatives. Certification of the EIR is required before approval of any project component. The draft EIR was released for a 45-day public review period on December 16, 2013; the public review period ended on January 31, 2014. The DEIR can be downloaded from the City website at the following address:  
[www.cityofsacramento.org/Arena](http://www.cityofsacramento.org/Arena).

The Final EIR, including a response to public comments submitted on the Draft EIR, will be posted on the City's website on May 1.

**Sustainability:** The ESC is being designed as a LEED Gold certified project. In addition, the ESC and surrounding plaza will employ water conservation, water reduction and reuse resulting in a water use reduction of approximately 35% as compared to a typical arena and plaza.

**Commission/Committee Action:** Not applicable at this time. The Planning and Design Commission reviewed the ESC project design and entitlements at eight separate public hearings. The Commission's recommendations will be included in a subsequent report to the City Council where the project approvals will be considered.

**Rationale for Recommendation:** The recommendation is to receive and file the report.

**Financial Considerations:** There are none at this time.

**Local Business Enterprise (LBE):** There are no LBE considerations at this time.

## Background

### Section 1: Overview of Terms

The March 23, 2013 Preliminary Term Sheet (Term Sheet) is a non-binding document for 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 Center (ESC) to serve as the home of the NBA's Sacramento Kings and also host family shows, concerts, sporting events, community-oriented events, and numerous other events. The 2013 Term Sheet served as a guide for subsequent due diligence, negotiations and development of definitive terms to be embodied in formal agreements. This section will highlight some of the key terms that will be included in the definitive project agreements as described in Section 2 of this report.

#### ESC Development Budget:

In accordance with the Term Sheet, SBH with its design team at AECOM have designed a world class, state-of-the-art, multi-purpose entertainment and sports center. The design captures what is unique about Sacramento, from the indoor-outdoor nature of the space to the City's trees and agricultural heritage. In addition, the building and surrounding plaza achieve the goals that Council established for the project on October 29, 2013 by creating an unparalleled entertainment venue.

The design process included input from numerous sources, including community meetings, focus group sessions, eight Planning and Design Commission meetings, City Council meetings, the Kings operations staff, the NBA, the project architect (AECOM), City staff, sponsors, and the general public. The input provided for new design concepts and refinements that resulted in substantial improvements in the project design and functionality. Those improvements included, among others, a more expansive plan for the public plaza and its features; design changes to enhance street-level activation on L Street; and an expanded plan for the practice facility and team offices.

The total project cost is currently estimated at \$477 million. Consistent with their commitment to cover costs beyond the original project budget, SBH will invest an additional \$30 million for these enhancements. SBH also remains responsible for any further cost increases.

#### Overview of the primary terms:

1. Capital Sources for Development: The sources for capital contributions to the development, design and construction of the ESC are identified in the table that follows. The table reflects the sources of cash that will be contributed to the development of the ESC.

<b>Capital Sources for Development</b>	
<b>City Capital Contribution (47%)</b>	
Public Finance	212,500,000
Parking Infrastructure Fund	5,630,100
MOPA Funds	5,000,000
City Subtotal	<b>223,130,100</b>
<b>SBH Capital Contribution (53%)</b>	
Debt and Equity	<b>253,869,900</b>
Total	<b>\$ 477,000,000</b>

2. City Contribution Overview:

- a. Capital or cash contribution totaling \$223,130,100. Capital contributions include \$212,500,000 through the sale of taxable lease-revenue bonds as described in a companion report on finance; \$5,630,100 from the Parking Infrastructure Fund; \$5,000,000 from downtown economic development MOPA funds derived from the City's sale of the Sheraton Grand Hotel.
- b. Transfer of land to SBH in exchange for a capital contribution to the ESC by SBH equal to the appraised value of the land as shown below:

<b>Land</b>	<b>Appraised Value (1)</b>
Natomas Arena – City Parcel	14,815,000
3rd Street and Capitol Mall	13,400,000
2nd Street and O Street	370,000
4th and J Street	1,640,000
312-314 K Street	830,000
1401 H Street	700,000
5th and K Street Air Rights(2)	293,480
J Street Remnant Parcel(3)	1,000
<b>TOTAL VALUE</b>	<b>32,049,480</b>

(1) Except as noted, all appraisals were performed by MAI appraisers in conformity with the Appraisal Institute's Code of Professional Ethics and USPAP standards.

(2) \$293,480 is per a preexisting option agreement; appraised value is \$240,000.

(3) Remnant parcel is an estimate of value by a licensed appraiser.

- c. Ground leases, at no cost, for foundation pads and any necessary easements on up to six City-owned sites for the duration of the ESC lease. SBH will have the right to design, finance, construct, operate, and maintain digital billboards on these sites.
- d. SBH will assume the management and operations of the Downtown Plaza parking under an Arena Parking Management Agreement for the term of the ESC lease. SBH will assume all management and operational costs and retain parking revenues.

- e. Approximately 1,000 -1,200 City-owned parking spaces under and adjacent to the footprint of the arena will be demolished. Additional spaces may become inaccessible during construction of the ESC and ancillary development.
- f. While not City contributions, the following confer benefits to SBH:
  - o Planning entitlements for up to 1.5 million square feet of ancillary development surrounding the ESC.
  - o Establishment of a sign district surrounding the ESC. This sign district will allow for enhanced signage rights consistent with an entertainment district.
  - o Rezoning, planning entitlements, and an ordinance amendment that would allow for up to six digital billboards in total.
  - o Naming rights for the ESC.

### 3. SBH Contribution Overview:

- a. Capital or cash contribution of \$253,869,900 through debt and equity for ESC development, design, and construction.
- b. Annual lease fee payments to the City that range from a minimum of \$6.5 million in year one to a minimum of approximately \$18 million in year 35 with a cumulative nominal value of \$390,994,149 and a present value of \$157,555,183. This is the minimum lease payment and would be adjusted as set forth below in section 5 – ESC Lease Term and Fee.
- c. Design and construction of a state-of-the-art, LEED Gold, national trend-setting, multipurpose entertainment facility to serve the City and region.
- d. Design and construction of a grand public plaza adjacent to the ESC.
- e. Contribution of the land required for the ESC, practice facility, and team offices at no additional cost to the City.
- f. Payment of ESC project cost overruns.
- g. Payment of any public plaza cost overruns.
- h. Payment of all predevelopment expenses including City expenses as agreed.
- i. Provision of a project completion guarantee.
- j. Responsibility for all ESC operating risks, expenses, and routine maintenance and repairs.
- k. Responsibility for all ESC capital repairs, replacement, and improvements and the establishment of a capital repair fund.
- l. Responsibility for all public plaza operating risks, expenses routine maintenance, and capital repairs.
- m. Responsibility for all Downtown Plaza parking facilities maintenance, operations, and capital repairs.
- n. Reimbursement of the City's incremental police, traffic control, and other municipal services on event days.
- o. Payment of possessory interest taxes and utility taxes to the City on the ESC and property taxes on transferred parcels (not currently on the tax roll).
- p. Provision of a public sector suite and public sector tickets.

- q. City use of the ESC for 9 major events and 24 minor events each year at no cost to the City except for actual service costs of SBH.
- r. A 35-year Kings Non-Relocation agreement.
- s. Reuse of the Natomas arena site including demolition and remediation costs associated with the baseball park foundation and arena.

4. ESC Ownership: The ESC and the land it is situated on will be owned by the City of Sacramento. SBH is responsible for all ESC land costs. SBH will have an option at the end of the lease to acquire the land and ESC.
5. ESC Lease Term and Fee: SBH will enter into a lease agreement with the City for a term of 35 years plus two 5-year extension options. The minimum annual lease fee is \$6.5 million. The fee will increase annually by the greater of (a) 3 percent or (b) the annual CPI Index. The annual lease fee will remain flat for the first five years. A compounded catchup adjustment will be effective in year six. The resulting minimum payment of \$7.53 million in the sixth year will escalate each year thereafter. The fixed lease fee replaced two variable revenue sources including the ticket surcharge and the Operating Profit Allocation which were eliminated. The surcharge was estimated to generate approximately \$3.7 million per year but was subject to market risks. The Operating Profit Allocation had a minimum payment of \$1 million per year and limited potential for profit sharing. It also carried market risk. The new fixed lease payment of \$6.5 million with inflation adjustments replaces the estimated \$4.7 million in potential revenue from the surcharge and operating profit allocation (OPR). The total minimum lease fee payments over the term of the lease are approximately \$390 million.

Sample Annual Fee Based on the <u>Minimum</u> 3% Adjustment	
Years	Lease Fee
1 - 5	\$6.5 million
6	\$7.5 million
7	\$7.76 million
10	\$8.48 million
15	\$9.83 million
25	\$13.21 million
35	\$17.76 million

6. 1997 City Lease-Revenue Bonds (Loan): The 1997 City Lease-Revenue Bonds must be paid off when the new ESC opens. The City and SBH will negotiate to implement a plan by which the City will issue replacement bonds to pay off the existing bonds contingent upon SBH providing satisfactory security and collateral for the loan. SBH is required to use the existing 5% Sleep Train Arena event fee, to pay down the current balance of the 1997 bonds to help reduce the principal amount of new bonds to be issued.

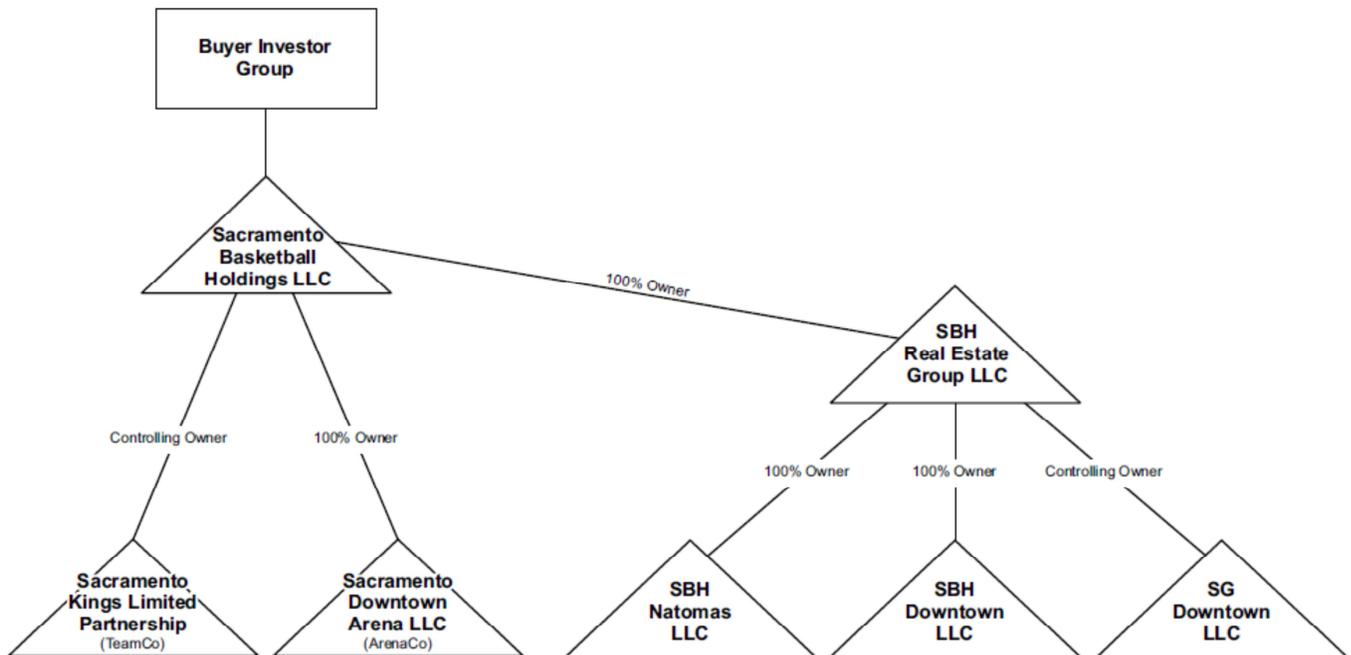
## Section 2: Description of Project Definitive Agreements

### AGREEMENTS TO BE PRESENTED FOR COUNCIL CONSIDERATION

The agreements involving the ESC project are between the City and Sacramento Basketball Holdings, LLC (“SBH” or “HoldCo”) or its affiliates. These affiliates are described below and their relationship to SBH is shown in the diagram.

- Sacramento Kings Limited Partnership (“TeamCo”): Owners of the Sacramento Kings NBA basketball team.
- Sacramento Downtown Arena, LLC (“ArenaCo”): Developer and operator of the downtown Entertainment and Sports Center.
- SBH Real Estate Group, LLC. (“SBH REG”): Owner or controlling member of SBH’s real estate holding companies which include:
  - SBH Natomas LLC (“SBH Natomas”): Future owner of the City’s 100-acre Natomas parcel.
  - SBH Downtown LLC (“SBH Downtown”): Future owner of City downtown transfer parcels.
  - SG Downtown LLC (“SG”): Owner of Downtown Plaza.

## SACRAMENTO KINGS



## A. Project Agreements

### 1. Comprehensive Project Agreement (“Comprehensive Agreement”)

The parties to the Comprehensive Agreement are the City, Sacramento Basketball Holdings LLC (“HoldCo”), Sacramento Downtown Arena LLC (“ArenaCo”), and Sacramento Kings Limited Partnership (“TeamCo”). The Comprehensive Agreement sets the framework for the ESC deal. First, it lays out the various “Project Agreements,” each of which is described below. It also provides for the good-faith negotiation of a future agreement to refinance the 1997 Lease Revenue Bonds (Arco Arena Acquisition). The Comprehensive Agreement also sets forth the City’s agreement to transfer the arena land in Natomas and HoldCo’s obligation to develop a plan for the development of that land. The other two main obligations in the Comprehensive Agreement are HoldCo’s agreement not to use Sleep Train Arena in competition with the ESC and the termination of the Project Agreements if either party’s funding does not materialize according to the terms of the AFEDA (see #6 below) or if the construction of the ESC is otherwise prevented from moving ahead.

### 2. Arena Design and Construction Agreement (“ADCA”)

The parties to the ADCA are the City and ArenaCo. The ADCA sets out the terms for the design and construction of the ESC. This agreement replaces the previously approved Predevelopment Process Agreement. Regarding design, the agreement provides for various benchmarks during the design process and the City’s review rights at each of the benchmarks. Regarding construction, the ADCA sets forth the basic construction obligations of ArenaCo, and lays out the City’s various rights relative to the construction (e.g., inspection rights, rights to review change orders, warranty rights).

### 3. Arena Management, Operation, and Lease Agreement (“AMOLA”)

The parties to the AMOLA are the City and ArenaCo. Pursuant to the AMOLA, the City leases to ArenaCo the arena and arena land. For use of the ESC, ArenaCo pays the City a Use Fee of \$6.5 million per year, with a CPI escalator, but no less than 3% per year. The escalator does not apply for the first five years (\$6.5 million in each of years one through five), but in the sixth year the escalator applies as if it had been running since year one. The AMOLA provides for a City suite and reserves to the City the right to use the ESC for up to 9 major civic events per year, as well as up to 24 minor events (e.g., City gatherings, small events, and meetings). As between the City and ArenaCo, ArenaCo will retain all revenues from the ESC (including revenues from events, advertising, concessions, and merchandise sales) except for revenues directly attributable to events held by the City. The AMOLA establishes the standards by which ArenaCo must operate, maintain, and repair the ESC. ArenaCo is responsible for all costs of operating, maintaining, and repairing the ESC, including taxes, insurance, repairs, replacements, and improvements (including all capital items). The AMOLA requires ArenaCo to establish a capital fund to help ensure that sufficient funds are available for capital items. The AMOLA also grants to ArenaCo the right, at the end of the term, to purchase either (a) the arena land, or (b) the arena land and

the improvements on the arena land (including the arena itself). The purchase price for the arena land will be \$1 (because ArenaCo is funding the initial purchase of the arena land). The purchase price for the improvements will be their fair-market value at the end of the term, less the costs to demolish the improvements and less certain capital expenditures previously made by ArenaCo.

4. Team Use Agreement.

The parties to the Team Use Agreement are ArenaCo and TeamCo. The City is not a party to the agreement. However, the City will be a third-party beneficiary to various provisions. The Team Use Agreement grants to TeamCo a license to use the ESC for 35 years, with two five-year extension options. In general, ArenaCo will operate and manage the ESC for TeamCo pursuant to the Team Use Agreement. However, TeamCo will control the scheduling of TeamCo events at the ESC (including Kings home games) and ArenaCo will delegate to TeamCo control over all advertising and marketing at the ESC, including naming rights (although certain industries are prohibited). The Team Use Agreement allocates the various revenues and expenses between ArenaCo and TeamCo and also requires that a “Use Fee” (i.e. rent) be paid by TeamCo to ArenaCo.

5. Team Non-Relocation Agreement.

The parties to the Team Non-Relocation Agreement are the City and TeamCo. By this agreement, TeamCo is required to play all of its “Home Games” at the ESC. However, TeamCo can play two pre-season Home Games and two regular season Home Games elsewhere. Also, TeamCo can play playoff games at neutral sites so long as the NBA’s rules for neutral site games are uniformly applied to all teams. The team will not be in breach by playing elsewhere if an “Alternate Site Condition”—which includes certain force majeure events, condemnation, and some other conditions—precludes use of the ESC. This agreement also requires TeamCo’s headquarters to be in Sacramento and the use of “Sacramento” in the team’s name. The primary remedy for the City is specific performance and injunctive relief to prevent relocation, but if that is not obtained there are liquidated damages. The amount of liquidated damages is still being negotiated.

6. Arena Finance, Escrow, and Disbursement Agreement (“AFEDA” or “FED”).

The parties to the AFEDA are the City, ArenaCo, and an escrow agent to be selected by the City and ArenaCo. In this agreement, the City and ArenaCo specify how they will fund their contributions to the cost of developing and constructing the arena. In general, the funding works like this:

- The City will contribute a fixed amount, which will be held in a City Account with the escrow holder. The City’s contribution will consist mainly of the proceeds generated from the sale of lease-revenue bonds (see FINANCE AGREEMENTS below).
- ArenaCo will contribute all costs in excess of the City’s contribution, and ArenaCo’s contribution will be held in an ArenaCo Account with the escrow holder. ArenaCo’s

contribution will be funded from investor equity and from proceeds of a loan secured by ArenaCo's leasehold interest on the arena.

- ArenaCo will be responsible for a capital contribution of \$32,049,480 toward the development of the ESC in exchange for the City's transfer of ownership of eight properties as identified in the PCA.
- The agreement specifies the order of priority for disbursing funds from the two accounts.

7. Property Conveyance Agreement ("PCA").

The parties to the PCA are the City, SBH Downtown LLC ("SBH Downtown"), SBH Natomas LLC ("SBH Natomas"), SBH Real Estate Group LLC ("SBH REG"), and SG Downtown LLC ("SG"). Through this agreement, the City agrees to transfer ownership of eight properties as set forth in the AFEDA. Of those properties, the Natomas Land will be transferred to SBH Natomas, and the Non-Natomas Land (i.e., all of other the properties) will be transferred to SBH Downtown LLC. Through this agreement, SG will convey ownership of a portion of ESC Land to the City. Finally, under this agreement, SBH REG is also being provided a right of first refusal for the 800 K Street property.

8. Arena Parking Management Agreement ("APMA").

The parties to the APMA are the City and ArenaCo. Consistent with the Term Sheet, the City is entering into the APMA for the management and operation of the Downtown Plaza parking facilities (i.e., the east, central, and west garages at Downtown Plaza also known as Parking Lots K, U, and G). The APMA describes how ArenaCo will manage and operate the parking facilities and provides for certain rights of the City (e.g., inspection rights). The APMA term is equal to the ESC lease (the AMOLA).

9. APMA Subcontract.

The parties to the APMA subcontract are the City and ArenaCo. Pursuant to the APMA subcontract, ArenaCo will hire the City to manage the parking operations in the APMA's downtown parking facilities for an interim six-month period. ArenaCo has requested that the City continue to manage the Downtown Plaza parking garages for a six-month transition period. The City has an independent obligation to update all of its parking technology and will begin that process shortly. After the end of the six-month term of the agreement, ArenaCo will either execute a long-term-management agreement with the City incorporating the new technology or obtain parking services from a different provider. The City expects to recover all of its expenses in managing the parking lots through this APMA subcontract.

10. Amended/Restated Construction, Operation, and Maintenance Agreement ("COMA").\*\*

The parties to the Amended COMA will be SG Downtown LLC, Macy's, and ArenaCo. Recital M states that the City "desires to execute a joinder"; consents to the Agreement; subjects its fee interest in the ArenaCo Tract to the Agreement; and agrees to be a

successor party upon termination of the lease with ArenaCo for the ArenaCo Tract. As the title suggests, the COMA sets forth provisions for the construction, operation, and maintenance of the retail improvements. The COMA includes provisions for the development of plans; construction and opening of the improvements; physical dimensions and operation of the stores; operation and maintenance of the plaza area and perimeter sidewalks; indemnity and insurance requirements ; repair maintenance, alterations, and restoration of the improvements; and developer's covenant to operate the retail buildings.

**11. Amended and Restated Parking Operations and Maintenance Agreement ("POMA")\*\***

The parties to the Amended and Restated POMA will be SG Downtown LLC, ArenaCo, Macy's, and the City. This agreement, written from the perspective of a shopping-center developer, provides detailed requirements for the operations of parking in the parking garages underlying Downtown Plaza. Macy's relies on this document to ensure that its customers can obtain convenient, safe, and validated parking.

**12. Amended and Restated Cross-Easement Agreement ("CEA")\*\***

The parties to the CEA will be SG Downtown LLC; Macy's; ArenaCo; and the City. In essence, the CEA provides for the integrated use of the various land interests in the project area by the granting of easements, covenants, and agreements, including those addressing utilities, pedestrians, parking, construction, support, stairways, elevators, etc. Additional provisions provide for insurance, force majeure events, discharge, attorney's fees, notices, amendments, termination, miscellaneous, and definitions.

\*\* These agreements – the COMA, POMA, and CEA – involve a third party (Macy's), and are still being drafted. They will not be presented with the rest of the agreements on May 13, nor posted with the other documents on May 1. They will be brought to City Council at a future date.

## **B. Finance Agreements**

The City will issue long-term bonds to finance its share of the entertainment and sports center cost. To comply with the California Constitution's limitation on long-term debt, these bonds will be backed by a lease-leaseback structure that the California Supreme Court has held to be constitutional. The City will lease the entertainment and sports center (building plus site) to a joint-powers agency, the Sacramento Public Financing Authority ("SPFA"), for nominal rent. SPFA will then sublease the arena back to the City and issue revenue bonds, the debt service of which will be backed by annual rental the City pays to SPFA under the sublease. Importantly, the City is obligated to pay rental under the sublease only so long as it has the beneficial use and occupancy of the arena.

### **1. Site Lease.**

The parties to this lease are the City as lessor and SPFA as lessee. For one-time rental of \$1, the City leases the arena site to SPFA for a term of 36 years with the understanding that SPFA will sublease the site back to the City for the same term.

### **2. Project Lease.**

The parties to this lease (really a sublease) are SPFA as sublessor and the City as sublessee. For annual rental equal to the annual debt service on the lease-revenue bonds, SPFA subleases the arena to the City for a term of 36 years. Rental is payable from the City and will be abated whenever and so long as the City does not have the beneficial use and occupancy of the arena. The Project Lease explicitly contemplates that the City will sublease the arena to ArenaCo.

### **3. Indenture.**

The parties to this agreement are the City, SPFA, and a bank serving as trustee for SPFA and the bondholders. With this agreement, SPFA pledges, as security for payment of the lease-revenue bonds, the rental paid by the City under the Project Lease. This agreement also sets forth the terms of the bonds, the trustee's duties and liabilities, the bondholders' rights, and the remedies for a default.

### **4. Bond Purchase Agreement.**

The parties to this agreement are SPFA and the purchaser of SPFA's lease-revenue bonds. This agreement sets forth the purchase price to be paid for the bonds; the key terms of the bonds, such as interest rates, maturities, and redemption provisions; and the conditions to closing the purchase.

## C. OTHER

### 1. Billboard Master Lease.

This lease covers the land for digital billboards that SBH is entitled to under the term sheet (as many as six). This agreement is predicated on the approval of amendments to the billboard ordinance that will allow billboards without an agreement to remove an equal square footage of sign face. The term of the lease is equal to the term of the ESC lease (AMOLA); once the AMOLA terminates SBH will be required to take down the billboards. The City retains discretionary authority to disapprove any individual sites. Any amendments to the lease sites will be brought to the City Council for approval.

## ***AGREEMENTS PREVIOUSLY APPROVED***

1. Property Acquisition Cost, Defense, and Indemnity Agreement (No. 2013-0826).  
The planned ESC is designed to be built, in part, on land not owned by either SBH or the City. The fee is owned by CalPERS, and U.S. Bank owns a leasehold interest and the improvements. In 2013, SBH tried to purchase the property, but could not reach agreement. SBH then asked for the City's help in acquiring the property. This intent of this agreement is to set forth SBH's obligations to fully reimburse the City for any and all actions taken by the City to acquire, or to help SBH acquire, the property. The agreement describes the expansive scope of SBH's reimbursement obligations. SBH also agrees to indemnify and hold harmless the City as well as to waive any claims against the City for its actions in pursuing the property.
  
2. Sacramento ESC Predevelopment Expenses Reimbursement Agreement (No. 2013-0976).  
The Term Sheet provides that SBH is responsible for all predevelopment expenses. In general, predevelopment activities include planning, designing, development, and entitlement of the ESC. This agreement describes the types of City expenditures that SBH must reimburse, such as professional services, legal services, project administration, community outreach, pre-construction fees, extra-ordinary plan-check review, etc. Most internal City costs (i.e., employee salaries) are not covered.
  
3. Sleep Train Event Fee Agreement (No. 2013-0977).  
The City issued bonds in 1997 to refinance existing debt on Sleep Train Arena. When the 1997 bonds are fully paid, the title at Sleep Train Arena vests with SBH. Consistent with the bond requirements, the Term Sheet provides that the City, in coordination with SBH, shall retire the bonds when the Kings vacate Sleep Train Arena. This agreement sets forth the Kings' obligations to collect an event fee on every ticket sold for entrance to events at Sleep Train Arena and the City's obligations to hold those collected fees in an account. The event fee is 5% of a ticket's base price. The aggregate amount collected will be used to help retire the 1997 bonds when the ESC opens in 2016.
  
4. Sacramento ESC Predevelopment Process Agreement (No. 2013-1039).  
This agreement is intended to set forth the preliminary planning, site location, and development of the ESC designs, plans, and specifications. It recognizes SBH as the party responsible for the design and construction of the ESC, with the need for City collaboration and input. It sets forth the process for information sharing, City review of plan development, and milestone dates for design documents.

### **Section 3: Planning, Design and Environmental Review**

As with all development projects, the Entertainment and Sports Center (ESC) project is subject to planning, design and environmental review. The following is a list and brief description of each of the planning, design and environmental documents or actions that are required if Council is to approve the project.

The project includes a 17,500-seat capacity indoor, multi-purpose entertainment and sports center at the location of the existing Downtown Plaza shopping center and to establish the framework for the development of up to 1.5 million square feet of adjacent uses, including up to 475,000 square feet of office, 350,000 square feet of retail/commercial, 550 new residential units, and 250 hotel rooms. The project also includes a request to approve offsite digital billboard locations.

1. **Environmental Impact Report (EIR):** In accordance with the California Environmental Quality Act (CEQA), an EIR was prepared to evaluate the environmental effects of the project and to propose measures to address any undesirable effects.
2. **Mitigation Monitoring Plan:** This is a list of measures or actions that must be put in place to reduce undesirable environmental effects of the project such as dust, noise, vibration, traffic congestion, etc.
3. **Development Agreement:** The Development Agreement vests the entitlements that will be obtained by SBH for ancillary development in the ESC Special Planning District (SPD). The arena itself is excluded from the Development Agreement. This is a voluntary agreement between the City of Sacramento and SBH for the additional development of up to 1.5 million square feet identified in the preliminary term sheet. This gives SBH up to 10 years to develop the area between 5<sup>th</sup> and 6<sup>th</sup> Streets and if SBH obtains a certificate of occupancy for a hotel or similar development between 5<sup>th</sup> and 6<sup>th</sup> Streets on J Street, it will be entitled to an additional 10-year extension. Large complicated infill projects often face a great deal of risk due to uncertain market conditions. This provides certainty to SBH that their planning approvals will not expire in the event that market conditions deteriorate and all of the development cannot be built within three years, which is when the approvals would typically expire.
4. **Entertainment and Sports Center Special Planning District (SPD):** These are specific regulations put in place to guide development of up to 1.5 million square feet of mixed uses surrounding the entertainment and sports center.
5. **Rezone:** Since there will be a new zoning district, those parcels will need to be rezoned into the new Entertainment and Sports Center SPD.
6. **Tentative Subdivision Map:** This is a map that shows the location of all the parcels or lots where development will occur. This includes not only the site of the entertainment

and sports center but all the other additional development sites for the housing, office, retail and a hotel.

7. **Conditional Use Permits (CUP):** A CUP is required for a use that requires further review or certain conditions prior to approval. Several CUPs are necessary for this project.
  - a. **Sports Complex Use:** Unlike housing or office, which is allowed by right in the Central Business District (C-3) zone, a sports complex use, such as an arena along with a practice facility and surrounding plaza area, requires a CUP.
  - b. **Alcohol Sales:** A CUP for alcohol sales for up to five bar/nightclubs is needed and will encourage these types of entertainment uses around the entertainment and sports center. Every one of the five nightclubs must adhere to a standard set of rules or conditions established by the Sacramento Police Department to ensure safe operation.
  - c. **Waive Ground Floor Retail Requirement:** High levels of ground floor retail help to enliven activity for people on the street. However, 5<sup>th</sup> Street is below the plaza and includes retaining walls and truck loading. Ground floor retail is not appropriate. On L Street, while there is more ground floor retail, there is a dynamic plaza area and an existing parking garage that results in less than the required amount of retail. As a result, a CUP is needed to waive a portion of the 50% ground floor retail requirement on L Street between 5<sup>th</sup> Street and 7<sup>th</sup> Street, and to waive a portion of the 75% ground floor retail requirement on 5<sup>th</sup> Street between J Street and L Street.
8. **Site Plan and Design Review:** Review of the site plan and the design of the entertainment and sports center, the surrounding plaza area, the practice facility, and all of the parcels included with the proposed tentative subdivision map is required.
9. **Variances:** These allow for exceptions to the rules governing noise.
  - a. **Construction Noise:** Since construction and demolition for a complicated project like the entertainment and sports center will involve longer hours, SBH must seek Council authority for an extension to the hours of construction established by the City's noise ordinance.
  - b. **Operations and Event Noise:** Because there will be many events during the day and the evening, the entertainment and sports center and surrounding plaza area will need to vary from the current hours and maximum noise levels allowed by the City of Sacramento noise ordinance. How much and when they are allowed to vary from current requirements is prescribed in the variance.

10. **Water Supply Assessment Report:** This is required for all large projects that include more than 500 residential units or more than 250,000 square feet of commercial space. It ensures that the City has sufficient water supplies to serve the entire ESC project.
11. **Digital Billboards:** SBH's right to up to six digital billboards on City-owned land is included in the preliminary term sheet. In addition to the EIR, ordinance change, and billboard lease agreement noted earlier, there are also several additional actions required for the off-site digital billboards. These include:
- a. **Site Plan and Design Review** for offsite billboard locations;
  - b. **Rezoning:** All digital billboards must be on land with either commercial or industrially zoned land. Several of the sites need to be rezoned with a commercial or industrial designation to allow for digital billboards.
  - c. **Variance:** Given that several of the digital billboard locations are next to elevated freeways, an exception to the height regulations is needed to allow additional height beyond the 85-foot maximum.
12. **Special Sign District:** A new sign district must be established given that the City's current sign code is out-of-date and does not allow many of the new sign technologies typically found in an entertainment district. Staff is currently working with sign consultants and property owners in the area between J and L Streets and 3<sup>rd</sup> and 7<sup>th</sup> Streets. Due to the complexity of this issue and the many stakeholders, this sign district will not be presented on May 13 to City Council but will be presented later this summer.