



OFFICE OF THE
CITY MANAGER

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March 30, 2011

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Kings Arco Arena Limited Partnership
Sacramento Kings Limited Partnership
Attention: Matina Kolokotronis
Maloof Sports, Inc.
Power Balance Pavillion
One Sports Parkway
Sacramento, CA 95834

Re: Sacramento Kings NBA Basketball Team

Dear Ms. Kolokotronis:

The City Council has asked that I express to you the City of Sacramento's ("City") sincere desire that the Sacramento Kings remain in Sacramento. The City continues to urge the Kings to reconsider any efforts or discussions about relocating from Sacramento.

If the Kings do intend to pursue relocation from Sacramento, the City is encouraged by George Maloof's statement reported in the *Sacramento Bee* yesterday that "[W]e have no intention of leaving that town [Sacramento] without paying our debt."

In recent weeks, the Kings have taken steps and made statements that indicate that it would be prudent and appropriate for the City to request that the Kings now put in writing the assurance that Mr. Maloof publicly gave in his interview with the *Bee*. Specifically, the City requests that the Sacramento Kings Limited Partnership (as the "Team Owner") and the Kings Arco Arena Limited Partnership (as the "Arena Owner") confirm in writing that, prior to any relocation, they intend to fully comply with their obligations to the City, including paying off the bond and related obligations ("Interest Rate Management Agreement" or "IRMA") that now total approximately \$77,000,000. The City requests that this written assurance include the proposed timing and details of the Team Owner and Arena Owner's payment to the City. The City believes that establishment of an escrow account and instructions would give both the City and the Kings useful certainty as to how the steps in this process will proceed.

The City requests that the written assurance be delivered by 5:00 p.m. on April 8, 2011 to the Mayor and City Council, with copies to the City Attorney and the undersigned.

By way of background, in 1997 the City and the Kings entered into a complex, interrelated series of agreements for the purpose of refinancing the Kings' debt on Arco Arena (now known as "Power Balance Pavillion"), the 83-acre sports-and-entertainment complex that now serves as the Kings' home court (the "Property"). This refinancing was done at the Kings' request, and without it, the Kings may not have been able to stay in Sacramento. In simple terms, the refinancing comprised the following elements:

- The City sold the bonds, which have a 30-year term and mature in 2027, for \$73,725,000.
- The City used the \$73,725,000 to buy Arco Arena from the Kings.
- The City then leased Arco Arena back to the Kings for 30 years, with rental equal to the debt-service on the bonds.
- The City uses the Kings' rental payments under the lease to pay the bond holders according to the debt-service schedule.
- The Kings covenanted not to relocate to another city until the bonds were paid off in full.
- When the bonds are paid off, title to the Arena reverts to the Arena Owner.

Both the Team Owner and the Arena Owner also entered into their own separate "Relocation Assurance Agreements" with the City. Under these Relocation Assurance Agreements, the Team Owner and Arena Tenant expressly agreed:

The City has enlisted the assistance of the Sacramento City Financing Authority ("Authority") *to ensure that the National Basketball Association ("NBA") team known as the Sacramento Kings (the "Kings") remains in Sacramento, rather than moves to another venue.* In furtherance of that assistance, Authority issued the Bonds, the proceeds of which were used to obtain record title from the Team Owners affiliate, Kings ARCO Arena Limited Partnership, a California limited partnership (the "Arena Owner"), the existing sports and entertainment arena and related parking facilities commonly known as ARCO Arena, together with then existing improvements, located in Sacramento, California . . . (the "Property"). (Emphasis added, Relocation Assurance Agreement, Recitals, para. A.)

Under the Team Owner's Relocation Assurance Agreement, the Team Owner acknowledged that: "A material condition of the City's obtaining record title of the Property from the Arena Owner was *the Team Owner's commitment to keep the Kings in Sacramento for up to 30 years or until the City Obligation is Satisfied.*" (Emphasis added, Relocation Assurance Agreement, Recitals, para. B.) Similarly, under the Arena Owner's Relocation Assurance Agreement, the Arena Owner acknowledged that: "A material condition of the City's obtaining record title to the Property from the Arena Owner was the Arena Owner's commitment to induce its affiliate, Sacramento Kings Limited Partnership ('Team Owner'),

to keep the Kings in Sacramento for up to 30 years or until the City Obligation is Satisfied.” (Emphasis added, Relocation Assurance Agreement, Recitals, para. B.)

Significantly, all pertinent written agreements expressly and unequivocally require the Team Owner and/or Arena Owner to fully payoff the City’s remaining bond indebtedness in the event the Kings relocate between years 11 and 30 of the 30-year lease. In particular, as provided under the Arena Facility Sublease between the City and Arena Owner, “[a]t any time following the end of the tenth full Lease Year, Tenant shall have the right to terminate this Sublease and obtain title to the Premises as provided in Section 9.2 hereof for any reason whatsoever by making the City Obligation Repayment.” (Arena Facility Sublease, para. 14.1.) Under Section 9.2 of the Sublease, title in and to the Property shall be “revested” to the Arena Owner if it fully pays off the City Obligation.

Moreover, under its Relocation Assurance Agreement, the Team Owner made a “covenant” to the City. In particular, under the “*Team Owner’s Covenant Not to Relocate the Kings*,” the Kings specifically agreed: “*The Team Owner hereby covenants and agrees it will not relocate the Kings from Sacramento, California to another venue if the City Obligation is not Satisfied.*” (Emphasis added, Relocation Assurance Agreement, Section 9.) The Arena Owner further made a “*Covenant to Cause Team Owner to Keep Kings in Sacramento*,” under its own Relocation Assurance Agreement, promising to “*cause its affiliate to remain in Sacramento, California and not relocate to another venue so long as the City Obligation is not Satisfied.*” (Emphasis added, Relocation Assurance Agreement, Section 9.)

The Relocation Assurance Agreements and the bond transaction as a whole all prevent the Kings from relocating until the Kings pay the bonds and IRMA in full.

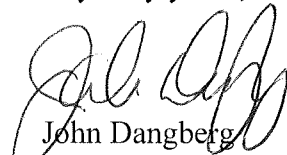
As you can appreciate, if the Kings relocate and the agreements with the City are not honored in full, the financial impacts to the City would be severe.

Once again, the City urges the Kings to reconsider their efforts to relocate. If the Kings are intent on relocating, the City requests your written assurance as set forth above. If the Kings decide to pursue an attempted relocation, without at a minimum, providing the City this requested assurance, the City will have no choice but to consider taking all of its options to ensure that the Kings satisfy their financial obligations. The City is also asking the NBA that any NBA-approved move be expressly conditioned on the Kings’ full and complete satisfaction of its financial obligations to the City.

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The City is certainly open to discussing this matter with the Team Owner and Arena Owner. Please feel free to contact City Treasurer Russell Fehr at any time to discuss this matter. The City looks forward to your timely response.

Very truly yours,


John Dangberg
Assistant City Manager

DWS:nzg

c: Commissioner David Stern
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National Basketball Association
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