

**Meeting Date:** 3/26/2013

**Report Type:** Staff/Discussion

**Report ID:** 2013-00266

**Title:** Entertainment and Sports Center (ESC)

**Report ID:** 2013-266

**Location/Council District:** Downtown/District 4

**Issue:** Approval of a term sheet between the City and an investor group in order to retain the Sacramento Kings NBA basketball franchise and to develop a new Entertainment and Sports Center (ESC) in downtown Sacramento.

**Recommendation:** Pass a resolution approving a term sheet between the City and an investor group (Ron Burkle, Mark Mastrov, and Vivek Ranadivé) for the potential development of an Entertainment and Sports Center in downtown Sacramento.

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

**Presenters:** John F. Shirey, City Manager, John Dangberg, Assistant City Manager, and Russell Fehr, City Treasurer

**Department:** City Manager

**Division:** Executive Office

**Dept. ID:** 02001011

**Attachments:**

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- 1-Description/Analysis
  - 2-Attachment – Background
  - 3-Attachment – Illustrations
  - 4-Resolution
  - 5-Exhibit A Term Sheet

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**City Attorney Review**

Matthew Ruyak via email

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**Approvals/Acknowledgements**

Department Director or Designee: John Dangberg Via email

## Description/Analysis

**Issue:** In late January 2013, the National Basketball Association (NBA) announced that a Seattle-based group was pursuing a controlling interest in the Sacramento Kings with the purpose of relocating the team to Seattle for the 2013/2014 basketball season. In late February 2013, the NBA announced that a formal application for relocation of the Sacramento Kings to Seattle had been received. The NBA's Constitution and Bylaws require that relocation to another city or transfer of team ownership must be approved by the NBA Board of Governors (BOG). The BOG is a body constituted of team owners. The NBA has also established a relocation and transfer committee to review this matter in detail. This committee is scheduled to meet the first week of April. The full NBA Board of Governors is scheduled to take up the matter on April 18.

On February 26, 2013, the City Council authorized the City Manager to pursue negotiations with credible prospective buyer(s) of the Kings and to return to the City Council prior to the NBA's April meetings. The City Council adopted the following principles to guide the negotiations:

- Protect the taxpayer
- Retire the existing city loan to the Kings
- New entertainment and sports center must be located downtown
- Long-term commitment to keep the Kings in Sacramento
- City will consider investing net value of its parking, land, and other assets
- Develop a public-private partnership
- Prepare for the economic reuse of the Natomas arena site

On March 1, 2013, an investor group headed by Ron Burkle of The Yucaipa Companies and Mark Mastrov of Fitness Holdings Worldwide, Inc. submitted a proposal to the NBA to a) acquire the Sacramento Kings, b) build a new Entertainment and Sports Center in partnership with the City, and c) keep the Kings in Sacramento on a long-term basis. Due to the longstanding need to replace the existing Natomas arena, the Mastrov-Burkle proposal included a commitment to develop a plan to finance and develop a new Entertainment and Sports Center (ESC) to serve as a premier regional entertainment and sports venue. The Mastrov-Burkle partnership now includes Vivek Ranadivé, founder and CEO of TIBCO, to form the current group (Investor Group) working with the City on the ESC proposal.

Prior to the NBA meetings in April, the Investor Group must come up with a viable finance and development plan for the Sacramento ESC. Due primarily to the limited size of the Sacramento regional media market and corporate base, the financing and development of a new arena will require a public-private partnership. Although several teams in large markets have privately financed multi-purpose facilities, a privately financed facility in Sacramento would not be economically viable given the limitations of the Sacramento market.

Since February 26, City staff under the guidance of the City Manager has been involved in negotiations to develop a term sheet for the development of the ESC. This report presents for Council consideration a term sheet between the City and the Investor Group for the finance, development and operation of a new publicly-owned ESC in Downtown Plaza. This report provides details and recommendations for financing the City's portion of the project including the financing from the City's parking assets and the transfer of City-owned land. It also includes recommendations on how financing can be accomplished without negatively affecting the City General Fund. Finally, the report summarizes the outreach and public engagement conducted since 2011 to develop a new entertainment and sports center in Sacramento.

### Report Organization

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

- Section 1: Summary of Term Sheet
- Section 2: City Sources of ESC Capital Funding
- Section 3: General Fund Backfill and Sources
- Section 4: Potential ESC Economic Benefit
- Section 5: Comparison of Current Term Sheet with Prior Term Sheet

The City Manager recommends Council's approval of the non-binding term sheet. While the term sheet involves a City contribution similar to that in the March 2012 term sheet, this investment has the potential to yield greater returns and brings the City closer to realizing the vision of an exciting and vibrant downtown based on the new proposed location at the Downtown Plaza, the capabilities and resources of the Investor Group, and the greater economic benefit to the surrounding area from potential additional development.

**Policy Considerations:** The development of the Entertainment and Sports Center will not only transform Downtown Plaza into a thriving center of entertainment and activity, it will also provide Sacramento with a first-class venue for sports, entertainment and cultural events. Completion of the ESC will fulfill several critical policy objectives. Specifically, the ESC will retain up to 800 existing jobs and create between 2,300 and 6,500 new ones, based on staff's analysis using the two different economic analysis models. The lower job estimate is based on City specific estimates while the higher figure represents primarily regional job growth. In addition, it will help spur additional investment along K Street, in Old Sacramento and throughout downtown. Furthermore, the project will hasten the redevelopment of the current Natomas arena site for redevelopment along with the adjacent City-owned 100 acres. The project will serve as a catalyst for economic development in downtown and throughout the 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 proposed business terms for future agreements. If the Council approves the term sheet for the ESC, the project itself will be subject to CEQA analysis.

**Sustainability:** If the Council later approves the financing plan for the project, the ESC is anticipated to be designed as a LEED-certified project.

**Commission/Committee Action:** Not applicable.

**Rationale for Recommendation:** The development of a new ESC at Downtown Plaza will serve as an economic catalyst for the Plaza, the greater downtown and the region. It will ensure that the City has a suitable entertainment and sports venue and enhance the entertainment and cultural opportunities in downtown and the region. Approval of the term sheet will allow the Investor Group to present a competitive proposal to the NBA for the acquisition of the Kings along with a credible plan for the development of a new ESC, and help retain the City's only professional sports franchise.

**Financial Considerations:** The total development cost of the ESC is estimated to be \$447 million. Of that amount \$258 million will come from the City of Sacramento from a variety of sources, including parking monetization and land transfers. The Investor Group will provide \$189 million. A detailed discussion of the sources of the funds from all parties is detailed in Attachment 1.

Development Revenue Sources	Amount
City contribution	\$258 million
Investor Group/Sacramento Kings	\$189 million
<b>TOTAL</b>	<b>\$447 million</b>

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

## Background

### Section 1: Summary of Proposed Term Sheet

The attached Term Sheet sets forth the basic terms of agreement between the City of Sacramento and the investment team lead by Ron Burkle, Mark Mastrov and Vivek Ranadivé (Investor Group) 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 Center (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 are identified in the table below:

Development Revenue Sources	Amount
City Contribution	
Public Parking Finance Model	\$212.5 million
Parking Infrastructure Fund	1.5 million
Sales Tax Construction Rebate	1 million
Sheraton MOPA Funds	5 million
Land Sales	38 million
Subtotal:	\$258 million
Investor Group/Sacramento Kings	\$189 million
<b>TOTAL</b>	<b>\$447 million</b>

Additional detail on the terms:

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

ESC Anchor Tenant: Sacramento Kings under a 35-year non-relocation agreement plus options two 5-year extensions.

Investor Group's Contribution:

- \$189.7 million for ESC construction
- 5% ticket surcharge on all ESC events (remitted to the City)
- Capital Repair Fee of \$1 per ticket on all events to the Capital Repairs Reserve Fund

- Responsible for all predevelopment expenses
- Responsible for arranging or providing a project completion guarantee
- Responsible for all ESC project cost overruns
- Responsible for all ESC operating expenses and routine maintenance and repairs
- Responsible for all ESC capital repairs, replacement, and improvements
- Responsible for all operating risk
- Reimbursement to City for all customary police, traffic control, and other municipal services on event nights
- ESC profit-sharing with City:
  - 15% of first \$10 million
  - 30% of next \$5 million
  - 50% of anything over \$15 million
  - Guaranteed annual payment of no less than \$1 million

#### City Contribution:

- \$258 million for ESC construction
- Sources:
  - \$212.5 million from public parking self-financing, parking infrastructure fund, and construction sales tax rebate
  - \$1.5 million from the City parking infrastructure fund
  - \$1.0 million from construction sales taxes generated from the ESC project
  - \$5 million from the Sheraton Master Owner Participation Agreement (MOPA) proceeds
  - \$38 million from land transfers to Investor Group

#### ESC Capital Repairs Reserve Fund:

A Capital Repairs Reserve Fund will be established to cover the cost of repairs to the ESC. A \$1 ticket surcharge on all ESC events will be used to fund the ESC Capital Repairs Reserve Fund.

#### 1997 City Lease-Revenue Bonds (Loan):

Existing bonds will be retired. City will issue new 30-year bonds to retire existing bonds upon the Investor Group providing satisfactory security and collateral for the loan which may include an ESC lockbox on revenues among other items to be determined. The Investor Group would have the right to utilize proceeds of the sale of the 85 acres of land at the site in North Natomas as well as other sources to pay down the current balance of the 1997 bonds and reduce the principal amount of new bonds to be issued. Furthermore, a 5% ticket surcharge will apply to all events held at Sleep Train Arena and the revenue from that will be used to retire the 1997 bonds.

#### Event Parking Revenues in City Garages (excluding Downtown Plaza Garages):

All parking revenues at non-Downtown Plaza City garages during ESC events will be retained by the City.

#### Downtown Plaza Parking Garage:

The City will transfer operational control of the remaining spaces in the Downtown Plaza parking garages (estimated at approximately 2,700 spaces after demolition of spaces for ESC construction) to the Investor Group through a long-term (i.e., 35-year agreement plus two 5-year extensions) parking management agreement. At least 1,000 spaces shall be reserved for premium parking for ESC events. (The City is not required to build any additional parking structures for the ESC.)

#### Downtown Plaza Development:

The City commits to work with the Investor Group to secure the necessary entitlements to allow for the potential development of up to 1,500,000 square feet of office, retail, housing, and hotel uses around the ESC on the Downtown Plaza site. The proposed development would include approximately 475,000 square feet of office, 300,000 square feet of retail, 250 hotel rooms, and 600 units of multi-family housing development. The preliminary costs estimates provided by the Investor Group are just over \$500 million.

## **Section 2: City Sources of ESC Capital Funding**

### **Public Parking Financing Model**

Working with the City's team of investment bankers, the City has developed a public parking financing model using the parking, Transient Occupancy Tax (TOT), and other revenue streams. The structure of this public sector model would 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 board of directors appointed by the City Council.

In this model, the City would transfer its off-street parking assets and/or operations (i.e., City-owned parking garages and lots) to this new corporation and appropriate on an annual basis revenues equal to net on-street and enforcement revenues. This structure would enable the corporation to issue a combination of tax-exempt and taxable revenue bonds that would generate proceeds to fund a major portion of the Entertainment and Sports Center (ESC) project. The revenue bonds would not be a debt obligation of the City. Other revenue streams, such as TOT, would provide debt coverage and enhance the ratings of the bonds resulting in lower interest rates. The financing structure would generate surplus net revenues from the corporation that would be used to backfill the General Fund.

In this model, the new corporation would be responsible for off-street parking operations. Existing City parking staff, a private operator, or a combination of the two would operate the garages. With respect to the control of rates, 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 for off-street parking garages. In the City's financial analysis of this model, only those limited increases for off- and on-street parking identified in the original Walker Parking Consultants report were included in the public sector model (refer to the study prepared on November 23, 2011 by Walker entitled "City of Sacramento: Market, Financial and Condition Assessment of Parking Assets" from the December 13, 2011 Council meeting). The corporation's ability to make significant rate adjustments is limited by its relatively low market share of downtown off-street parking. On-street rate increases will likely be driven by off-street parking rates.

As with any financing, there are potential risks to the City associated with this approach. To minimize risks, staff used conservative (Walker) parking revenue growth projections for the term of the agreement with the corporation. In a scenario where parking revenues are not sufficient to make the debt payments of the corporation, the City's TOT would be used to make those payments. That risk would be mitigated by using conservative assumptions and establishing various debt and rate stabilization reserves as a part of the financial transaction. Furthermore, the model provides upfront capital for investments in technology and operational efficiencies to enhance the net parking revenue available for debt service payments.

The upside potential is equally important to recognize. As the city grows, parking demand increases resulting in increased parking revenues that would accrue to the City General Fund.



## Costs of Public Parking Finance Model

There are substantial expenses associated with the transaction. These costs are the result of 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 from the proceeds of the transaction.

### **City-owned Land Transfers**

The City owns several properties that could generate revenue for the ESC. Under the proposed Term Sheet, these properties would be transferred to the Investor Group and it would be responsible for providing the cash equivalent land value toward the development of the ESC. CBRE was retained by the City to determine the value of City-owned land assets. Based on their recent update dated February 26, 2013, the value of the land assets listed below is estimated at \$37.98 million. The value of the Natomas property is based on the assumption that the current development moratorium is lifted.

<b>One-Time Revenues</b>	<b>Value Estimate</b>
Natomas – City Parcel (100 acres)	\$19,990,000
3 <sup>rd</sup> Street and Capitol Mall (Lot X)	9,970,000
2 <sup>nd</sup> Street and O Street (Lot Y)	470,000
Haggin Oaks at Business 80 (approx. 60 acres)	3,920,000
800 K Street (includes multiple parcels)	1,600,000
4 <sup>th</sup> and J Street	2,030,000
<b>TOTAL</b>	<b>\$37,980,000</b>

Source: CBRE, *Revenue Generation Study - Broker Opinion of Value* prepared for the City of Sacramento, February 26, 2013.

### **Master Owner Participation Agreement (MOPA) Funds**

The sources of City funds include Master Owner Participation Agreement (MOPA) funds. 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. Use of the MOPA funds requires approval from both the City of Sacramento and CIM and David S. Taylor Interests per the terms of the agreement. The City has received that approval.

### **County Possessory Interest Tax**

On February 28, 2012, the Sacramento County Board of Supervisors approved a resolution supporting a financial contribution from the County for the ESC. The Board agreed to contribute new possessory interest tax (PIT) revenue generated by the ESC. The County has agreed to contribute

the same source of revenue for this project. The PIT revenue from the ESC is approximately \$600,000 per year. The funds will be included in the financial structure in order to increase borrowing capacity for the development of the ESC.

### Section 3: General Fund Backfill Sources

Annually, the City of Sacramento's parking system contributes approximately \$9 million to the General Fund. With the proposed undertaking of a Public Parking Finance Model, City staff has identified potential revenue sources to "backfill" the General Fund. In completing this work, City staff and its consultants examined revenues to ensure the City's General Fund remained whole. Revenues sufficient to cover the loss of parking revenues have been identified from the sources summarized in the table below. A discussion of each of these funding sources follows the table.

<b>Annual Backfill Revenue Sources</b>	<b>Post-ESC Completion</b>
City Parking Revenues	\$3,000,000
Ticket Surcharge on ESC Events (5% surcharge)	3,700,000
City Parking Revenues from ESC Events	625,000
ESC Generated Possessory Interest Tax – City	898,000
ESC Taxes (Sales/Utility User) – City	300,000
City Profit from ESC Operations	1,000,000
Downtown Plaza Garage Possessory Interest Tax	39,000
Investor Group Land Acquisition Property Tax	98,000
<b>TOTAL</b>	<b>\$9,660,000</b>

Prior to the start of construction of the ESC, the City expects to receive a lump sum payment from the proceeds of the Public Parking Finance Model that will backfill the loss of annual parking revenues to the General Fund during construction.

#### City Parking Revenues

The Public Parking Finance Model will be structured in such a way to provide \$3 million annually to backfill the City's portion of the General Fund revenue.

#### Ticket Surcharge on ESC Events

Ticket surcharges are a self-imposed levy on admission tickets to events. The Investor Group or their ESC operator will charge 5% ticket surcharge on all events held at the ESC. The estimated annual revenue to be returned to the City is \$3.7 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.

#### City Parking Revenues from ESC Events

The City will retain all revenue from City garages with the exception of Downtown Plaza garages. During all ESC events, the City expects to receive additional parking revenue at City garages due to increased parking demand. As a result, these additional revenues would be another source available for the backfill of the General Fund. However, the amount shown in the table above is less than the estimate contained in the General Fund backfill chart from the ESC staff report dated March 6, 2012.

The reason for the difference is that this estimate excludes the Downtown Plaza garages and there are fewer City-owned garages in close proximity to the Downtown Plaza site compared to the former Railyards site. As a result, the City would capture a smaller share of the parking revenues from ESC-related events compared to prior Railyards proposal.

#### ESC Possessory Interest Tax

The proposed ESC will be owned by the City and leased to the private Investor Group. 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 amount through their valuation process. Only the City portion of the possessory interest tax would be used for backfill the General Fund.

#### 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 to be \$300,000 a year.

#### City Profit from ESC Operations

Under the proposed term sheet, the Investor Group has agreed to profit-sharing with the City. Under the terms of the profit-sharing agreement, a minimum \$1 million would be paid annually into the City's General Fund.

#### Downtown Plaza Garage Possessory Interest Tax

Under the proposed term sheet, the Investor Group would have operational control of the remaining 2,700 parking spaces in the City-owned garages under Downtown Plaza. Given that the Investor Group would have operational control of this City asset for the term of the agreement, they would be required to pay Possessory Interest Tax. Only the City portion of the possessory interest tax would be used for backfill of the General Fund.

#### Investor Group Land Acquisition Property Tax

The City would transfer the City-owned properties to the Investor Group that are currently valued at approximately \$38 million. Once controlled by the private Investor Group, it would be required to pay property tax. Only the City portion of the property tax would be used for backfill of the General Fund.

## Section 4: Potential ESC Economic Benefit

The Entertainment and Sports Center (ESC) development as proposed in the Term Sheet would have multiple benefits to the City. Not only does this effort help the City retain the Sacramento Kings and the jobs associated with the team, it is also expected to serve as a major catalyst that supports long-term City efforts to revitalize Downtown Plaza, K Street, and the surrounding area.

Some of the advantages of the proposed ESC development at Downtown Plaza include:

- **Preserves Key Benefits of 2012 Railyards Deal**
  - Strengthens City efforts to save Kings, a major employer with 800+ local jobs
  - Expands the City's civic attractions through a new ESC
  - Project would create between 2,300 and 6,500 new jobs and result in anywhere from \$380 to \$847 million in income and revenues<sup>1</sup>
  - Preserves the City's Intermodal property in the Railyards for transportation uses and preserves the area for future transit-oriented development
  - Protects Natomas from risk of blight from team leaving immediately.
  - Honors City's core tenets of protecting the taxpayer, protecting the City General Fund, and keeping the Kings in Sacramento
- **The 2013 ESC proposal provides new economic benefits to City**
  - Closer proximity to City economic development priorities of K Street, Old Sacramento, and Capitol Mall
  - Utilizes revenue streams that benefit City and developer (e.g., using City land for development, etc.)
  - Simultaneously resolves arena and Downtown Plaza revitalization issues
  - Benefits previous City investments in K Street (Convention Center, 700 K, etc.)
  - Provides higher level of private investment (\$189 million) compared to prior proposal in Railyards (\$132 million)
  - Generates potentially larger stream of tax revenue for City services as a result of ESC and additional private development by Investor Group including:
    - Property taxes

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<sup>1</sup> Note: Based on estimates from both the *CRA Redevelopment Construction Jobs Calculator* model and the *City of Sacramento Construction Project Economic Impact Calculation Tool*, which was developed by Center for Strategic Economic Research (CSER), and utilizes the IMPLAN input-output model. The CRA model looks at overall economic impact in the region and beyond while the City model just looks at local impact within the City.

- Sales taxes
  - Hotel occupancy taxes
  - Utility users taxes
- Provides for up to 1.5 million square feet of additional private investment in downtown Plaza including office, retail, housing and hotel uses
- Creates synergy with convention center and increases attractiveness of the area for major conventions and other events
- **2013 deal reduces several external risks to the City**
  - Better capitalized partner
  - Reduced loan repayment or refinancing risks due to financial strength of Investor Group
  - Removes City from role as developer
  - Fewer anticipated environmental issues such as site remediation
  - City is transferring other property for development instead of being forced to sell City-owned property at the bottom of the market
  - No stand-alone parking structure required that would have used \$14.5 million of MOPA funds
  - Investor group is responsible for predevelopment expenses and development risks including cost overruns
- **2013 ESC proposal includes several other advantages**
  - Improved access to the site for all transportation modes
  - Better existing pedestrian and public transportation connections to the site, encouraging pedestrian traffic in the Central Business District and greater transit use
  - Less constrained site compared to the Railyards location
  - Better integration with City Convention Center and K Street investment
  - No potential operational conflicts with the Sacramento Intermodal Transportation Facility
  - Located in area with many other existing civic amenities as well as restaurants, hotels, and other entertainment

## Section 5: Comparison of 2013 Term Sheet with 2012 Term Sheet

The following provides a general comparison of the current (2013) term sheet for the ESC proposed for Downtown Plaza and the term sheet from last year that included the ESC on the City-owned portion of the Railyards adjacent to the Sacramento Intermodal Transportation Facility (SITF). Given the different nature (e.g., privately-owned land versus City-owned land, etc.) of the projects, not all the terms are directly comparable, but the major components are listed below. Both proposals include a similarly-sized ESC that would be LEED-certified and would be comparable to other state-of-the-art arenas in other cities.

Provisions	2013 ESC Term Sheet (Downtown Plaza)	2012 ESC Term Sheet (Railyards)
<b>Total ESC Cost</b>	<b>\$447 million</b>	<b>\$390.50 million</b>
<b>ESC Contributions</b>		
Investor/ Kings Contribution	\$189 million	\$73.25 million
ESC Operator Contribution	--	\$58.75 million
City Contribution	\$258 million	\$258.5 million*
City Parking Finance	\$212.5 million	\$230.0 million
City Parking Infrastructure Fund	\$1.5 million	\$1.5 million
City Construction Tax Rebate	\$1.0 million	\$1.0 million
City Land	\$38.0 million	\$18.0 million
MOPA	\$5.0 million	\$5.0 million
<b>Outstanding Loan Repayment</b>		
1997 Lease Revenue Bonds	Retired and New Issue	Retired and New Issue
New Loan Collateral	Yes	Yes
<b>Land</b>		
Land Acquisition (City)	None	Yes (\$7.8 million)
City Land Sales	No	Yes
City Land Transfer and Credit	Yes	No
<b>Development and Maintenance Costs</b>		
Predevelopment Costs (City)	None	50%
Development Cost Overruns (City)	None	Partial
Operations and Maintenance (City)	None	None
Capital Repairs (City)	None	50%
Reimbursement for City Services	Yes	Yes
New City Premium Parking Garage	No	Yes
City Funding for New Garage	No	Yes (\$14.5 million)
<b>Non-Relocation Commitment</b>		
Kings Non-Relocation Term	35 years + two 5-year options	30 years
Non-Compete Clause	Yes	Yes
<b>Revenue Sharing</b>		
City Retention of Kings Event Parking Revenues from City Garages	Yes**	No
Profit-Sharing	Yes	Yes
<b>Additional Development Potential</b>		
Investor Group Development	Yes	No

\*Note: City contribution in 2012 included Capital Campaign contribution of \$3 million.

\*\*Note: Revenues from Downtown Plaza garages would go to Investor Group.

## Entertainment and Sports Center Illustrations





## **RESOLUTION NO. 2013-**

Adopted by the Sacramento City Council

### **APPROVING THE TERM SHEET BETWEEN THE CITY AND THE INVESTOR GROUP FOR THE DEVELOPMENT OF AN ENTERTAINMENT AND SPORTS CENTER IN DOWNTOWN PLAZA**

#### **BACKGROUND**

- A. In 2012, the City in partnership with the NBA and the Sacramento Kings developed a financing plan for a new City-owned arena in the Downtown Railyards, but in April 2012, the current ownership of the Sacramento Kings withdrew from that agreement.
- B. In late January 2013, the National Basketball Association (NBA) announced that a Seattle-based group was pursuing controlling interest in the Sacramento Kings with the purpose of relocating the team to Seattle for the 2013/2014 basketball season
- C. In late February 2013, the NBA announced that a formal application for relocation of the Sacramento Kings to Seattle had been received by the NBA.
- D. On February 26, 2013 the City Council authorized the City Manager to pursue negotiations with a credible prospective buyer of the Kings and to return to the City Council prior to the NBA's April meetings.
- E. On March 1, 2013, an investor group headed by Ron Burkle of The Yucaipa Companies, Mark Mastrov of Fitness Holdings Worldwide, Inc., and Vivek Ranadivé of TIBCO ("Investor Group") submitted a new proposal to the NBA in competition with the Seattle proposal to: 1) acquire the Sacramento Kings; 2) build a new Entertainment and Sports Center in partnership with the City; and 3) keep the Kings in Sacramento on a long-term basis.

#### **BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1. The Sacramento Entertainment and Sports Center Term Sheet between the City of Sacramento and the investor group led by Mark Mastrov, Ron Burkle, and Vivek Ranadivé (attached as Exhibit A), is approved.

#### **Table of Contents:**

Exhibit A: Sacramento Entertainment and Sports Center Term Sheet

**SACRAMENTO ENTERTAINMENT AND SPORTS CENTER  
TERM SHEET  
March 23, 2013**

The City of Sacramento (City), in recognition of the public benefits to be derived, and an investor group led by Mark Mastrov, Ron Burkle and Vivek Ranadive (Investor Group or Kings HoldCo) have developed terms for a public-private project that would result in the potential development of a new multi-purpose entertainment and sports center (ESC) and the redevelopment of the Downtown Plaza. The Investor Group has (i) submitted a proposal to the owners of the general partner of Sacramento Kings Limited Partnership (Kings TeamCo or Kings or Team) and the National Basketball Association (NBA) to acquire all of the equity in such general partner and (ii) intends to keep the Kings in Sacramento long-term, contingent on the development of a new ESC (as defined below). The NBA is evaluating options regarding the future home of the Kings franchise. This Term Sheet, if approved by the City, will be submitted to the NBA to assist it in its due diligence process, and will only be effective if the NBA approves the Investor Group as new owners of the Kings and the Investor Group consummates the acquisition of the Team. If the NBA approves the Investor Group as the new owners of the Kings and the Investor Group consummates the acquisition of the Team, Kings HoldCo would likely establish an affiliated entity to develop, construct, and operate the ESC (Kings ESCCo); an affiliated entity to operate the Team (Kings TeamCo); and possibly other related entities. The definitive documents will specify the legal entities participating in the proposed transaction.

This Term Sheet sets forth the process and framework by which the parties agree to negotiate definitive documents and potential approvals to be considered by the City regarding 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 Investor Group has also expressed an interest in acquiring and operating a WNBA franchise to play its home games in the ESC. The parties agree to prepare definitive legal documents that contain the basic terms set forth herein, with other agreed terms consistent with this Term Sheet that 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 Kings HoldCo, which will have final decision-making authority for that process, subject to City review and 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.

Although this Term Sheet contains the proposed, non-binding terms of a potential transaction which the City has agreed to process, the parties agree that no obligation to enter into definitive transaction documents, or any transaction, shall exist and no project or definitive transaction documents shall be deemed to be approved, until after (i) the proposed project is reviewed in accordance with the requirements of the California Environmental Quality Act (CEQA), (ii) any additional conditions or changes to the project based on the CEQA review have been resolved in a manner acceptable to the City and Investor Group and (iii) all required permits for the project have been obtained by the City in accordance with applicable laws and regulations.

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<b>Parties</b>	<p>City of Sacramento (City)</p> <p>Investor Group or Kings HoldCo – Parent company that owns and controls affiliates described herein (and possibly others).</p> <p>Kings ESCCo – Kings HoldCo affiliate responsible for developing, constructing, and operating the ESC.</p> <p>Kings TeamCo – Kings HoldCo affiliate responsible for owning and operating the Team.</p> <p>Note: The definitive legal documents will identify the legal entities formed by the Investor Group to acquire the controlling interest in the Kings and to develop the ESC.</p>
<b>Ownership</b>	<p>The ESC shall be owned by the City or a public entity controlled by the City. The land on which the ESC will be developed shall be owned by Kings ESCCo and leased to the City or a public entity controlled by the City for \$1.00 per year for a term that will be co-terminous with the term (including any extensions) of the lease of, and management agreement for, the ESC. If, at the end of the term of the lease and management agreement, the City desires to continue to operate the ESC, the City and Kings ESCCo shall enter into good faith negotiations regarding the terms pursuant to which the parties would extend the term of the land lease for the period of such continued operation. This ownership structure, as well as alternative ownership structures, will be considered by the City and the Investor Group, but must be designed so as to not negatively impact the tax status of the City's financing. The ownership structure as mutually agreed upon by the City and Investor Group shall be detailed in the definitive legal documents, which may include appropriate refinements to the terms in this Term Sheet, provided that the final ownership structure does not adversely affect the interests of the Investor Group.</p>
<b>Location</b>	<p>The ESC is proposed to be located at the Downtown Plaza on property currently owned or controlled by the City and affiliates of JMA Ventures, LLC (JMA), and on other parcels to be acquired or leased by the Investor Group, as necessary. See Exhibit 1 for a map that illustrates the Downtown Plaza location. The exact location on the ESC shall be determined by agreement of the parties, following additional design and planning. The parties may consider other locations by agreement.</p>

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<b>Description</b>	<p>The ESC shall be a new, first-class, state-of-the art, LEED certified, multi-purpose entertainment and sports center that will serve as the home of the Kings (and potentially a WNBA franchise), and will also host family shows, concerts, sporting events, community oriented events, and numerous other events. The ESC shall also include the practice and training facility of the Kings.</p> <p>See Exhibit 2 for a summary description of the ESC's preliminary program elements. The definitive agreements will contain a more detailed description of program elements.</p>
<b>Sources and Uses of Funds</b>	<p>Except as otherwise specified herein, each party shall be solely responsible for securing its financing and other funding sources required for the planning, construction, and development of the ESC.</p> <p>See Exhibit 3 for a preliminary list of sources and uses of funds to develop the ESC.</p>
<b>1997 Lease Revenue Bonds</b>	<p>The City, in coordination with the Kings, shall retire the 1997 Lease Revenue Bonds issued by the Sacramento City Financing Authority upon the Team vacating Sleep Train Arena (currently anticipated to take place in September 2016). The City (or a Financing JPA or other similar entity) 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, including an amortization period of 30 years. Kings TeamCo shall make timely payments in an amount sufficient to pay debt service associated with the new bonds. Payment shall be made regardless of labor disturbances (strike/lockout) or other force majeure events. Kings TeamCo 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. "Adequate" means the value of the Security (applying reasonable risk assessment standards to such Security), if liquidated, would yield sufficient proceeds to repay all amounts outstanding on the bonds. If the City and the Investor Group cannot agree upon Adequate Security, the determination shall be made by an independent investment banking firm specializing in municipal finance. The parties shall use their respective commercially reasonable efforts to implement alternative structures that would allow for off-balance sheet financing, subject to Kings TeamCo providing Adequate Security. Kings TeamCo 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, as well as other sources, to pay down the current balance of the 1997 Lease Revenue Bonds and reduce the principal amount of the new bonds to be issued.</p>

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<b>ESC Development</b>	<p>The City and the Investor Group intend to work together in a collaborative and cooperative manner to develop the ESC in a fiscally responsible manner. The Investor Group shall be responsible for, and shall lead all phases of the planning, environmental review, design, land acquisition, development, and construction of, the ESC and related infrastructure. The City shall have the right to provide meaningful input with respect to the development of the ESC, which input the Investor Group shall reasonably consider in good faith. City approval rights, as well as other 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 good faith. The parties will put in place and manage a design process for the ESC whereby the City 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 City will be entitled to provide its input, and to the extent required by existing law will have approval rights, with respect to the ESC design at various stages of the design process, including schematic design, design development, and construction document phases of the project. The parties 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. 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 named above. The ESC design and construction must also comply with NBA rules, including those related to technology and guest experience.</p>
<b>Schedule</b>	<p>The parties shall work cooperatively and make commercially reasonable efforts to open the ESC by September 2016 and shall promptly after the date hereof agree upon a schedule of milestones regarding CEQA, permits and other important events such as to meet such timetable.</p> <p>The City agrees to assign the appropriate planning, engineering, building, safety and other staff to enable the parties to achieve such timeline.</p>

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<b>Pre-Development Expenses</b>	The Investor Group shall be responsible for project pre-development expenses; provided, that, for the avoidance of doubt, the Investor Group shall have no obligation to reimburse the City for any pre-development expenses incurred by the City prior to the date hereof.
<b>Completion Guarantee and Cost Overruns</b>	The Investor Group shall use reasonable best efforts to cause the general contractor responsible for the ESC to provide a project completion guarantee consistent with the Schedule referred to above, and the Investor Group shall provide cost-overflow protection covering all elements of the development, construction, and delivery of the ESC. The project completion guarantee shall include separate written guarantees from financially viable individuals or entities, in form and substance satisfactory to the City, that the ESC will be completed timely. The terms and conditions of the project completion guarantee and cost-overflow protection shall be subject to approval by the City, in its reasonable discretion.
<b>Real Estate Development</b>	<p>Subject to standard regulatory approvals, the City shall work in good faith with the Investor Group to modify existing zoning, as necessary, to allow up to 1,500,000 square feet of development and the ESC on the Downtown Plaza site. Such real estate development may include for the following:</p> <ul style="list-style-type: none"> <li>• Office – 475,000 Square Feet</li> <li>• Retail – 300,000 Square Feet</li> <li>• Multi-Family Residential – 600 Units</li> <li>• Hotel – 250 Rooms</li> </ul> <p>The Investor Group acknowledges the strategic and economic importance of this ancillary real estate development plan and shall use commercially reasonable efforts to develop the plan as generally described above as promptly as practicable after the ESC opening date, taking into account resources necessary to develop and operate the ESC.</p> <p>The City and the Investor Group shall work to develop a comprehensive signage program for the area, including the ESC and Downtown Plaza (Signage Program). The City acknowledges the strategic and economic importance of the Signage Program and will work to implement a program that is acceptable to the parties. The specifics of the proposed program shall be outlined in the definitive legal documents. City staff shall present to the City Council for consideration the proposed program and required amendments (if any) to the City's sign code at the appropriate time. Any rights shall exist throughout the term of the lease agreement (and any extensions).</p>

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<b>CEQA</b>	<p>As required by law, the City retains the sole and independent discretion as the lead agency to, among other things, balance the benefits of the ESC project against any significant environmental impacts prior to taking final action if such significant impacts cannot otherwise be avoided, and determine not to proceed with the ESC project. No legal obligations to approve the project, the permits for the project, or the transaction will exist unless and until the parties have negotiated, executed, and delivered definitive agreements based upon information produced during the CEQA environmental review process and on other public review and hearing processes, subject to all applicable governmental approvals.</p> <p>The City shall assist the Investor Group during the CEQA process, including working with the State of California (State) to qualify the project under AB900; however, the City shall not be required to incur costs in doing so.</p>
<b>Non-Compete – Sleep Train Arena</b>	<p>The Investor Group shall not operate, or allow others to operate, Sleep Train Arena in competition with the ESC.</p>
<b>Non-Relocation – Kings</b>	<p>Kings TeamCo shall enter into a binding and enforceable non-relocation agreement with the City that includes 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 35 years (subject to a limited number of league-approved neutral site games and other customary exceptions). The non-relocation agreement shall 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 lease agreement, in each case except as provided in the definitive non-relocation agreement.</p>

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<b>ESC Management</b>	Kings ESCCo shall manage and operate the ESC on behalf of the City pursuant to the terms of a separate management agreement. The management agreement shall have a minimum term of 35 years, with two five-year options exercisable by Kings ESCCo to extend the term. Kings ESCCo may elect to hire a private management company experienced in the management of comparable facilities to manage the ESC, subject to the reasonable approval of the City. 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. Kings ESCCo shall be solely responsible for all aspects of the ESC operation (including the booking of non-Kings events). City oversight roles, responsibilities, and use of the ESC shall be determined in the definitive legal documents. Except for collateral assignments to lenders, Kings ESCCo shall not assign any of its rights under the management agreement without the approval of the City, to be granted or withheld in its reasonable discretion.
<b>Capital Contribution – Timing</b>	The parties shall determine the timing of the capital contributions for ESC development and construction in the definitive legal documents.
<b>Capital Contribution – City Equity/Other</b>	The City shall provide, or cause other public and private entities to provide, a total of \$220,020,000 toward the development of 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.
<b>Capital Contribution – City Land</b>	<p>The City shall transfer and convey the following City-owned parcels of land to the Investor Group, free and clear of any liens.</p> <ul style="list-style-type: none"> <li>• Natomas – City Parcel</li> <li>• 3<sup>rd</sup> Street and Capitol Mall (Lot X)</li> <li>• 2<sup>nd</sup> Street and O Street (Lot Y)</li> <li>• Haggin Oaks/Business 80</li> <li>• 800 K Street</li> <li>• 1121 8<sup>th</sup> Street</li> <li>• 4<sup>th</sup> and J Street</li> </ul> <p>The value of the above-referenced City-owned land is \$37,980,000 (estimated Natomas land value assumes flood moratorium lifted prior to sale). The Investor Group may elect to retain ownership of such parcels for development or sell the parcels and invest the proceeds in the planning, design, development and construction of the ESC. The Investor Group shall be responsible for providing the cash equivalent of the land value toward the development of the ESC. To the extent permitted by law, the City agrees to reimburse the Investor Group for the City’s net share of transfer taxes imposed in connection with the sale or other transfer of any of the above parcels by the Investor Group to any other person or entity.</p>



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<b>Capital Contribution – Investor Group</b>	<p>The Investor Group shall pay the remaining balance toward the development of the ESC, currently estimated at approximately \$189,700,000. The Investor Group shall have the right, but not the obligation, to obtain private financing for its capital contribution. The Investor Group may utilize ESC revenue streams that it is entitled to receive as security for its private financing or other obligations, to the extent not otherwise committed as Security for the new bonds issued to retire the 1997 Lease Revenue Bonds. The City shall reasonably cooperate with the Investor Group to facilitate the private financing of its Capital Contribution, including consideration of customary lender protection and rights; however, the City shall not be required to incur any out-of-pocket costs or provide any form of credit enhancement to facilitate such private financing.</p>
<b>Use and Occupancy</b>	<p>The ESC shall serve as the home of the Kings (and potentially a WNBA franchise) 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>Kings TeamCo 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-related activities or events (collectively with Team games, Kings Events), the scheduling of which shall be provided for in the definitive legal documents. There shall be no restriction on the ability of the Kings at any time to use the practice and training facility built into the ESC.</p> <p>The City shall be permitted to use the ESC to host up to 9 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. Kings ESCCo and the City shall work together to provide the Sacramento Convention and Visitors Bureau (SCVB), the Sacramento Convention Center, and similar entities access to the ESC, subject to the limitations above. The City shall have the right to schedule City Events in advance based on ESC availability. For City Events, the City shall: 1) pay no rent or use fee; 2) retain all event-related revenues; and 3) only be required to pay the incremental out-of-pocket costs incurred by the ESC in hosting the event. The City shall also have the right to utilize the ESC for small meetings, banquets, etc. (City Minor Events) if the events do not conflict with other previously scheduled events, subject to ESC availability and on terms agreed by the parties.</p>

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<b>Ticket Surcharge – ESC</b>	All events held at the ESC shall be subject to a 5.0% ticket surcharge. 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 apply to non-Kings Events that have an established ticket price separate from the annual suite license fee. All ticket surcharge revenue collected from ESC events shall be disbursed to the City monthly. The City shall retain all revenue generated by the ticket surcharge.
<b>Ticket Surcharge – Sleep Train Arena</b>	Effective June 1, 2013, all events held at Sleep Train Arena shall be subject to a 5.0% ticket surcharge. The ticket surcharge shall be applied to all paid tickets sold, and shall be paid by the respective event. All ticket surcharge revenue collected from Sleep Train Arena events shall be disbursed to the City monthly and shall be held in a trust account until the parties retire the 1997 Lease Revenue Bonds. The revenue generated by the ticket surcharge shall be used to retire a portion of the 1997 Lease Revenue Bonds, and potentially to reduce the principal amount of the new bonds to be issued.
<b>Kings Lease</b>	<p>Kings TeamCo, Kings ESCCo, and the City shall enter into a lease agreement for the ESC, containing the following principal terms and other terms to be negotiated:</p> <ol style="list-style-type: none"> <li>1. Kings TeamCo shall enter into a 35-year non-relocation agreement, as described above.</li> <li>2. The lease shall be for a term of 35 years and provide Kings TeamCo with two five-year options exercisable by Kings TeamCo to extend the term.</li> <li>3. Except as otherwise provided herein, Kings TeamCo 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.</li> <li>4. With respect to sales of suites and other premium seating, Kings TeamCo 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 Kings TeamCo and 50% to Kings ESCCo.</li> <li>5. Kings ESCCo 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</li> </ol>

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	<p>and the revenues from such sales, net of direct expenses, shall be divided 50% to Kings TeamCo and 50% to Kings ESCCo.</p> <p>6. Kings TeamCo shall retain 100% of net food, beverage, and merchandise revenues generated by Kings Events.</p> <p>7. Kings TeamCo shall be responsible for game-day operating expenses for Kings Events.</p> <p>8. Kings ESCCo shall be responsible for Annual Operating Expenses of the ESC, as described below.</p> <p>9. Kings ESCCo shall retain all fees related to the distribution of tickets in the primary market (i.e., any Ticketmaster convenience fees/rebates).</p>
<b>Naming Rights</b>	<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, guns, etc.</p>
<b>Digital Signage Plan</b>	<p>The City and the Investor Group shall work to develop a comprehensive digital signage program. The City acknowledges the strategic and economic importance of the digital signage program and will work to implement a program that is acceptable to the parties. The specifics of the proposed program shall be outlined in the definitive legal documents. City staff shall present to City Council for consideration the proposed program and required amendments (if any) to the City's sign code at the appropriate time. Any rights shall exist throughout the term of the lease agreement (and any extensions). The parties shall work together to seek approval for up to six (6) digital signs. City staff shall present a recommendation to City Council for approval of any required amendments to the City code to allow the Investor Group to develop and operate three (3) digital signs on City property, with location and availability to be determined as detailed in the definitive legal documents and an additional three (3) sites on properties outside of the City. To the extent that the parties are not able to secure the additional signs on properties outside the City, the parties shall identify up to three (3) additional signs on City property. The Investor Group shall be responsible for the development and any operating and maintenance costs relating to such signage.</p>
<b>ESC Parking</b>	<p>During the term of the management agreement (and any extensions), Kings ESCCo shall, through a parking management agreement with the City, operate, maintain, and repair the Downtown Plaza parking facilities commonly referred to as Downtown Plaza Parking East, Downtown Plaza Parking Central, and Downtown Plaza Parking West (collectively, Downtown Plaza Parking). Kings ESCCo shall provide at least 1,000 parking spaces for premium seat holders at the Downtown Plaza Parking (DT Premium Seating Parking). Kings TeamCo shall retain 100% of net parking revenue generated during Kings Events by the</p>

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	<p>remaining parking spaces that are not considered DT Premium Seating Parking spaces at the Downtown Plaza Parking (DT General Parking). Kings ESCCo shall retain 100% of net parking revenue generated during non-Kings Events and non-ESC Events by the DT General Parking. The operating, maintenance, and repair standards shall be determined in the definitive legal documents.</p> <p>The City shall not be required to construct any new parking structures for the ESC. Except as noted above, the City shall retain net parking revenues from all other City-owned or controlled parking garages and lots.</p>
<b>Other Event Revenues</b>	Except for City Events and Kings Events, Kings ESCCo shall receive all revenues from all other events.
<b>Property Taxes</b>	The Investor Group and related entities shall pay any and all property taxes (including taxes on possessory interests) associated with all real property interests in the ESC. The Investor Group and related entities shall be responsible for its own personal property and any other taxes related to its operations and income.
<b>Targeted Taxes</b>	The City shall not impose, and shall cooperate with any efforts of the Investor Group to prevent any other public entities from imposing, on all or any portion of the ESC or the Team any targeted or special taxes, assessments or surcharges (including ticket or amusement taxes or surcharges that are in addition to those set forth herein), including special district taxes, assessments or surcharges. Kings ESCCo, Kings TeamCo, and its users shall be subject to all City taxes or assessments of general applicability.
<b>Annual Operating Expenses</b>	<p>Kings ESCCo 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"> <li>• Salaries, wages and benefits</li> <li>• Routine maintenance</li> <li>• Routine repairs</li> <li>• Insurance</li> <li>• Utilities</li> <li>• Supplies and equipment</li> <li>• Human resources</li> <li>• Training</li> <li>• Contract labor</li> <li>• Setup/tear down</li> <li>• ESC marketing/promotion</li> <li>• Premium seating marketing/promotion</li> <li>• Non-event security</li> <li>• Non-event cleaning</li> </ul>

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	<ul style="list-style-type: none"> <li>• Telephone</li> <li>• Professional services (e.g., legal, accounting, etc.)</li> <li>• Travel/lodging</li> <li>• Equipment rental</li> <li>• Taxes/permits/fees/licenses</li> <li>• Dues and subscriptions</li> <li>• Public relations</li> <li>• Common area maintenance/landscaping</li> <li>• Unreimbursed event expenses</li> <li>• Unfunded pre-opening expenses (Year 1)</li> <li>• Others</li> </ul> <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).</p>
<b>Capital Repairs</b>	Kings ESCCo shall be responsible for all ESC capital repairs, replacements, and improvements (Capital Repairs). Identification of ESC capital repairs, replacements, and improvements shall be determined by Kings ESCCo, subject to the reasonable approval of the City. However, Kings ESCCo 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 the 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, Kings ESCCo shall fund any shortfalls.
<b>Capital Repairs Fee</b>	All events at the ESC shall be subject to a charge of \$1.00 per ticket Capital Repair Fee on paid tickets for all events to pay for Capital Repairs during the term of the management agreement. The Capital Repair Fee shall be subject to annual escalation in an amount to be determined in the definitive legal documents.
<b>Capital Repairs Reserve Fund</b>	Kings ESCCo shall deposit all Capital Repair Fees into a segregated and dedicated Capital Repairs Reserve Fund. Any surplus in the Capital Repairs Reserve Fund upon termination of the ESCCo management agreement (including any extensions) shall be disbursed as 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.

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<b>Municipal Services</b>	Customary police, traffic control, and other similar City-based services (Municipal Services) for ESC events shall be provided by the City at a general level and manner appropriate for ESC events and, with respect to Kings events, in compliance with NBA rules and standards. Kings TeamCo shall be responsible for any and all costs incurred by the City for Municipal Services provided for all Kings Events on terms to be set forth in the definitive legal documents. Kings TeamCo and the City shall cooperatively evaluate 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 ESC Events; 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 Kings 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 ESC Event, the City shall have the right to determine and impose the staffing level for that event. Kings ESCCo shall insure that events other than Kings Events shall be responsible for any and all costs incurred by the City for Municipal Services provided. Kings ESCCo shall be granted similar rights as Kings TeamCo 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.
<b>Team Name</b>	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).
<b>Corporate Headquarters</b>	The Kings shall maintain their corporate headquarters within City limits during the lease term (and any extensions).
<b>Team Transfer</b>	Upon any sale or other transfer of all or substantially all of the assets or equity of the Team (including the Kings NBA membership) prior to execution of definitive legal documents (and the City shall not have any consent right with respect to such transfer), 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.
<b>Affordable Programs</b>	The Kings shall make reasonable efforts to provide attractive and meaningful programs to keep the NBA affordable for families in the Sacramento region.

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<b>Vendor Rights</b>	Kings ESCCo shall be solely responsible for identifying and entering into third-party vendor contracts for the ESC. 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.
<b>Agreements with Affiliates</b>	Any agreements between Kings ESCCo and any of its affiliates, 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.
<b>NBA All Star Game</b>	The Kings shall request that the NBA host the NBA All-Star Game at the ESC within three years after opening. The roles and responsibilities of the City and Investor Group shall be determined in the definitive legal documents.
<b>Internet</b>	<p>Kings ESCCo shall provide the City with a banner on the ESC website. The banner shall serve as a link to the City's internet home page.</p> <p>Kings TeamCo shall provide the ESC with a banner on the Team's website. The banner shall serve as a link to the ESC's internet home page.</p>
<b>Public Sector Suite</b>	The City shall have an option to use one complimentary, furnished luxury suite at the ESC (location to be determined by Kings ESCCo in good faith), including tickets and preferred parking to all ESC events included as part of a typical license agreement (but the City shall pay for all food and beverage associated with such suite), for any official City purpose during the term of the management agreement. Kings TeamCo shall provide suite tickets for Kings Events in the Public Sector Suite at no cost to the City. Distribution of tickets to the City suite will be subject to the City's ticket distribution policy.
<b>Public Sector Tickets</b>	Kings TeamCo shall provide the City ten (10) complimentary tickets per Kings Event (location to be agreed upon) for any official City purpose during the term of its lease agreement. Distribution of tickets will be subject to the City's ticket distribution policy.
<b>Operating Profit Definition</b>	Operating Profit shall be the difference between: (a) all revenues retained by Kings ESCCo relating to the operation of the ESC (as described above), including but not limited to: rent, concessions revenue, merchandise revenue, premium seating revenue, naming rights revenue, sponsorship revenue, Downtown Plaza ESC event parking revenue, ticketing handling fees and rebates, facility fees (except those earmarked for Capital Repairs Reserve Fund), interest income, handling fees, etc.; and: (b) all unreimbursed event expenses and Annual Operating Expenses paid by Kings ESCCo relating to the operation of the ESC (as described above).

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<b>Operating Profit Allocation (Waterfall)</b>	<p>Operating Profits shall be allocated by the Kings ESCCo on an annual basis as follows:</p> <ul style="list-style-type: none"> <li>– First \$10,000,000 (escalated annually by CPI) to be allocated 85% to Kings ESCCo and 15% to City.</li> <li>– Next \$5,000,000 (escalated annually by CPI) to be allocated 70% to Kings ESCCo and 30% to City.</li> <li>– Remainder to be allocated 50% to Kings ESCCo and 50% to the City.</li> </ul> <p>The minimum annual payment to the City shall be no less than \$1,000,000 (escalated annually by CPI).</p>
<b>Natomas Land Use Entitlements</b>	<p>As described above, the City shall transfer and convey to the Investor Group the City-owned approximately 100 acres of land in North Natomas (City Land). The City will work cooperatively with the Investor Group to remove the existing mutual land-use restrictions affecting approximately 85 acres of land at the site in North Natomas (Kings Land) and the 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 in anticipation of a sale or development of the land by the Investor Group. The City shall work with the appropriate public agencies to lift the flood plain moratorium as soon as reasonably possible. The Investor Group will be responsible for the payment of any outstanding unpaid fees, penalties, or other liabilities on the Natomas land.</p> <p>The Investor Group shall plan, entitle, and, at its election, sell its property (including the land transferred to it by the City) and pay any costs and expenses incurred in obtaining such entitlements. The Investor Group shall be responsible for any site specific costs, including: demolition of Sleep Train Arena and other associated structures; demolition of baseball stadium foundation; cost of removing reciprocal easements; costs of all entitlements and an EIR, including all pre-planning, engineering, CEQA consultants, and litigation defense (if any); community outreach costs; mitigation costs required under the EIR; and, marketing costs/commissions. Notwithstanding the foregoing, the City shall indemnify the Investor Group for any costs and expenses incurred by the Investor Group or its affiliates in connection with any environmental contamination, remediation, or disposal of contaminated soils related to the City Land.</p>
<b>Non-Discrimination</b>	<p>The Investor Group agrees to comply with the City's non-discrimination code requirements.</p>

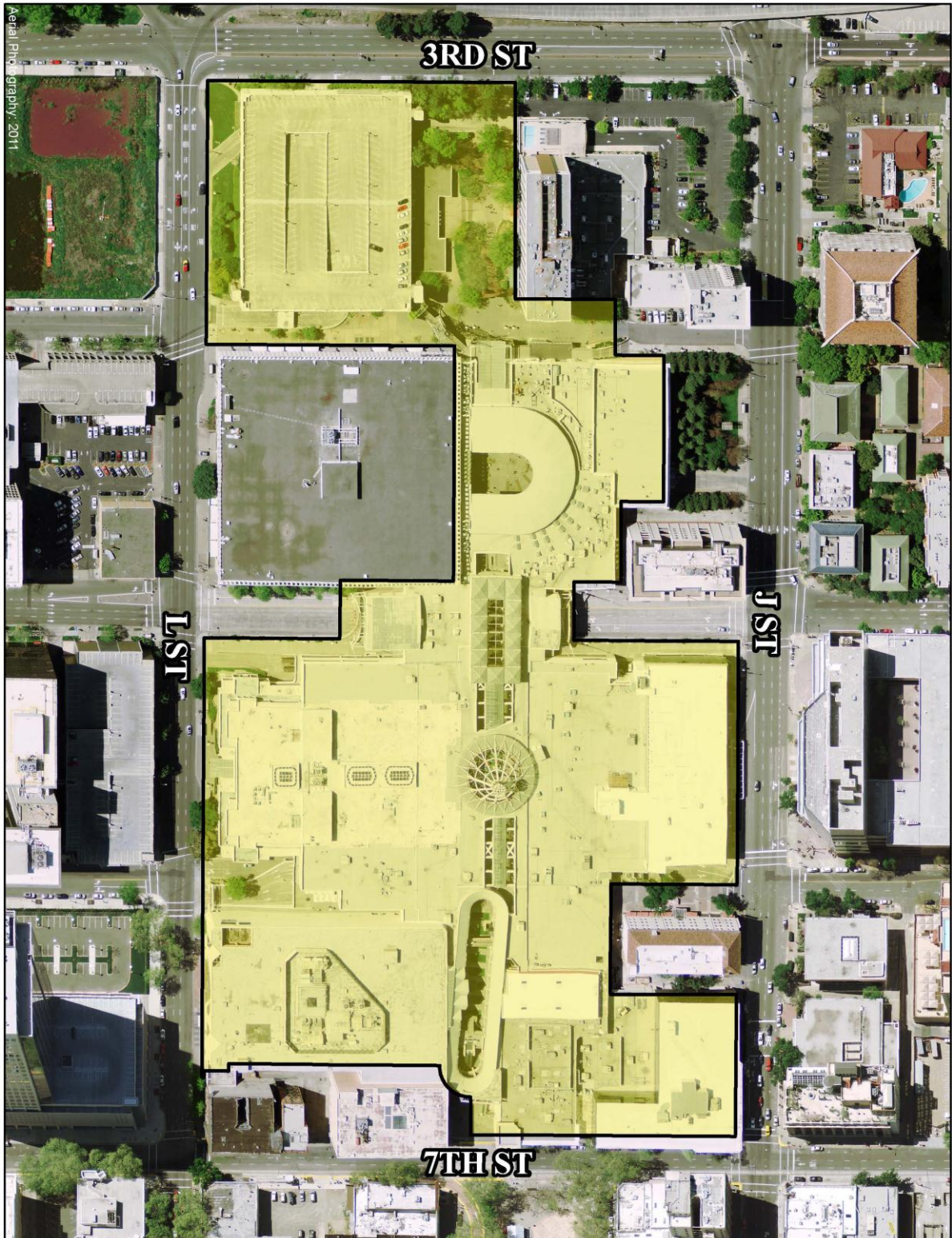


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<b>Confidentiality</b>	The City agrees not to disclose, and to cause its affiliates and representatives not to disclose, to any third party any financial information or other confidential information provided to it pursuant to this Term Sheet or the definitive legal documents, to the extent permitted by law.
<b>NBA Approvals</b>	The parties acknowledge that the definitive transaction documents will be subject to the approval of the NBA.

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**EXHIBIT 1  
DOWNTOWN PLAZA LOCATION**



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**EXHIBIT 2**  
**PRELIMINARY PROGRAM DESCRIPTION**

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
<b>Space Type</b>	<b>Gross Square Feet</b>
Classification 1: Spectator & Arena Bowl Facilities	145,916
Classification 2: Premium Facilities	58,110
Classification 3: Circulation	188,322
Classification 4: Food, Retail, & Spectator Facilities	104,250
Classification 5: Team Facilities & Practice Facility	49,879
Classification 6: Administration	25,463
Classification 7: Media Facilities	13,977
Classification 8: Event Facilities & Operations Support	88,083
Classification 9: Parking	TBD
Estimate of Gross Building Square Footage (G.S.F.)	674,000

Source: Investor Group.

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

<b>Sources of Funds</b>		
Capital Contribution - City/Other		\$258,000,000
<i>Capital Contribution - City Equity</i>		\$220,020,000
Public Parking Financing/Other	\$217,520,000	
Parking Infrastructure Fund	\$1,500,000	
Sales Tax Construction Rebate	\$1,000,000	
	<hr/>	
<i>Capital Contribution - City Land Contribution - (1), (2)</i>		\$37,980,000
Natomas - City Parcel (100 Acres) - (3)	\$19,990,000	
3rd Street and Capitol Mall (Lot X)	\$9,970,000	
2nd Street and O Street (Lot Y)	\$470,000	
Haggin Oaks/Business 80	\$3,920,000	
800 K Street	\$750,000	
1121 8th Street	\$850,000	
4th and J Street	\$2,030,000	
	<hr/>	
Capital Contribution - Sacramento Kings		\$189,705,000
<b>Sources of Funds - Total</b>		<hr/> <b>\$447,705,000</b>
<b>Uses of Funds</b>		
Start-Up Expenses		\$3,667,000
Sales and Marketing		\$1,247,000
Design and Professional Services		\$26,148,000
Legal and Governmental Services		\$1,614,000
Project Administration		\$20,675,000
Construction/Systems/Equipment		\$311,250,000
Demolition		\$7,500,000
Permits, Testing, Fees, Taxes, and Special Assessments		\$23,669,000
Insurance, Financing, and Transaction Costs		\$13,935,000
Land Acquisition		\$26,000,000
Owner Contingency		\$12,000,000
<b>Uses of Funds - Total</b>		<hr/> <b>\$447,705,000</b>
<b>Surplus/(Deficit)</b>		<hr/> <b>\$0</b>

(1) - Broker opinion of value study prepared by CBRE.

(2) - Investor group responsible for providing providing the cash equivalent land value toward the development of the ESC.

(3) - Assumed value once flood plain moratorium lifted.