

MINUTES  
OF THE  
SPECIAL MEETING  
OF THE SACRAMENTO CITY COUNCIL  
AND  
SACRAMENTO CITY FINANCING AUTHORITY

FEBRUARY 5, 1997  
[Wednesday]

**CALL TO ORDER**

The Special Meeting of the Sacramento City Council and the Sacramento City Financing Authority was called to order by Mayor Serna at 7:00 p.m. in the Council Chamber, 915 "I" Street, 2nd Floor.

**ROLL CALL**

Present: Council members Cohn, Fargo, Kerth, Pannell, Steinberg, Waters, Yee and Mayor Serna  
Absent: None

**PLEDGE OF ALLEGIANCE** was led by Mayor Serna

**11.0 STAFF REPORTS**

**11.1 Review of business terms between the City and Jim Thomas (D-All)**

Mayor Serna thanked everyone, both for and against, who had taken the time to attend the meeting on Tuesday evening in order to give their comments on this issue. Noted that the various ideas offered were logged for consideration and study.

He also thanked the staff members who had given many hours of dedication and effort into this project, stating that the Council realized it was a tough issue but appreciated the expertise of those involved.

The Mayor gave a brief report on the Working Group made up of Council member Heather Fargo, Council member Rob Kerth, Council member Darrell Steinberg and the Mayor, Joe Serna, Jr. advising that this group had entered into an Indemnification Agreement with the Special Committee appointed for the purpose of reviewing the Proposed Loan to the Sacramento Kings.

Henry Royer, who served as Chair of this Special Committee introduced the other members. They included Cecilia Delury, Robert Kittredge and Sean Barry. Mr. Royer noted that the committee was formed to analyze the finances of the Sacramento Kings and report back to the Mayor and Council regarding the need and the appropriateness of the proposed City-Kings transaction.

The Committee met on January 27 through January 30, 1997. They were provided with an outline of the proposed transaction as it existed on Tuesday, January 28, 1997. On Wednesday, January 29, 1997, they were allowed access to audited financial statements of Kings Arco Arena Ltd. Partnership and Sacramento Kings Ltd. Partnership for the years ending June 30, 1992 through 1996. They were also provided with operating projections from the years ending June 30, 1997 through 2001. They were also provided a copy of the March 22, 1994 appraisal of the Arco Arena. They did not perform an audit. Their work was limited to analysis of confidential information provided them.

Their review of the financial data regarding the Kings and the Arco Arena operations since the Thomas group has taken ownership revealed the following:

1. The confidential information provided to them confirmed the accuracy of the financial data regarding Arena operations previously provided the city;
2. No money has been distributed to the owners. All cash generated has been used to support operations on the Arena and the team.
3. The audited financial data reflects a net decline in owners' equity during the past five years.
4. On a combined basis, the operations of the Kings and Arena incurred an economic loss in the most recent fiscal year.
5. Expenses of both the Arena and the Kings seem to be well managed.

Mr. Royer continued by saying that based on the Committees review, they believe there is an immediate cash flow need to restructure the existing outstanding debt of the Arena and the Team. The debt restructuring is necessary because of the specific provisions of the existing debt arrangement which calls for not only normal principal amortization but also accelerated principal repayments which are creating cash flow problems. Under the existing financing arrangements, there is also a need for a debt refinancing by 1999.

As to the assessment of risk, the committee had: 1) available to them 4 years of actual historical financial performance which support the reasonableness of the growth and income as projected through June 30, 2001. There is inherent risk in any 30 year projection of income and expense. The specific reasonableness of years beyond 2001 will be addressed by the bond underwriters; 2) the First Deed of Trust on the Arena makes available as security the Arena which is supported by a 1994 appraisal that shows a value of \$88,200,000 with the Kings in attendance. The promise of loan payment by the owners if the Kings' franchise is moved would address the risk or potential reduced value of the property thus securing the proposed loan; and 3) Net Arena revenues at current levels do not cover all of the debt service requirements of the City's proposed long-term financing transaction. The Committee understood that short-term notes will be utilized to finance cash flow shortfalls until Arena revenues grow to levels necessary to fully support the debt. If net Arena revenues grow at the annual rate projected by City staff over the 30-year period of the obligation, net revenues will be adequate to cover all of the City's obligations. It is our understanding that expectations of net Arena revenue growth as expressed by Kings and Arena

management are substantially higher than the revenue growth rate projected by City staff.

In summary, Mr. Royer advised that the Committee believes there is a definite need in the near term for debt restructuring. The primary risk to the city in this transaction is the risk that Arena revenues will not grow sufficiently to repay the debt over the next 30 years. It is the view of the Committee that the transaction does supply the Kings with sufficient cash flow to operate and NBA franchise team during at least the next 5 years. Further that the cash generated by the transaction is difficult to analyze over a 30-year time frame. However, the cash flow risk is partially mitigated by the underlying value of the Arena backed by the owner's promise of payment if franchise is moved. The Committee is convinced that the owners economically could do better by selling and letting the franchise move.

Bill Farley, Economic Development Manager, in response to a request by the Mayor, provided a brief synopsis of the issues presented and discussed at the meeting held on Tuesday, February 4, 1997.

He then directed the Council to the Staff Report Addendum (to Staff Report dated February 3, 1997) and to page 2 which is shown as *Exhibit A* [Kings Financial Assistance] addressing the various conditions imposed in order for the City Manager to execute a loan agreement which includes The provisions of *Exhibit E* without any substantial change or difference. This text has been drafted into a new resolution prepared for this evening's action.

Mr. Farley went on to discuss *Exhibit B* which contained significant business term changes from staff report and disclosure item:

- ◆ the financial hardship condition in the loan relative to the percentage of gross revenue below the NBA average will be set at on the following schedule: (1997-98: 27.5%; 1998-99: 25%; 1999-00: 22.5%; 2001-01: 20%; 2001 and beyond: 17.5%)
- ◆ deferred interest (Revenue Anticipation Notes) will be amortized on a fixed schedule over the life of the loan starting in year 8, amortized over 17 years. Additional principal will be paid on the portion of the loan when 50% of Net Operating Income exceed total debt service on the loan. This change has the potential to reduce the reported financing costs by \$6.5 million. This change also removes the need for a call provision.
- ◆ ticket surcharge revenue will be allocated 25% (\$100,000) to pay off the outstanding City loans on an annual basis and 75% to a contingency reserved secured by the City on an annual basis until such time the reserve reaches \$1.5 million. When the reserve reaches \$1.5 million, 100% of the annual revenue will be applied to the City loan. Establishing a reserve during the early term of the loan will ensure that the City has additional protection in the future in the event the annual revenues from the Arena do not meet debt service projects.
- ◆ loan documents will be completed by February 15 subject to resolution of sponsorship issues and legal opinions supporting all business terms.
- ◆ the financial hardship test for the Net Operating Income is reduced from 57% to 43% (this was a staff error in the report)

◆ staff wants to disclose that the term sheet includes the following provisions:

- \* offsets to losses to Arena revenue in the event a ticket tax is imposed. (This is similar to provisions in Packard Bell Lease and protects both the City and the Kings)
- \* a general statement has been added (in the term sheet) about possible future elections to provide a permanent solution to the Kings financial situation
- \* secured interest on the team will be assigned to trustee of bond issue

Mr. Farley then reported on *Exhibit C* which contains answers to Council questions asked on Tuesday, February 4, 1997. This sheet is attached to these minutes for reference.

Mayor Serna inquired with reference to question 1 whether or not the taxpayers funds would be protected by this.

Tom Friery, City Treasurer, stated that it does. Mr. Farley added that it actually strengthens the protection.

Mayor Serna asked, referencing question 2 whether this would keep the Kings in Sacramento to which Mr Jim Thomas, owner of the Kings replied that "it does for now".

Council member Cohn inquired about an appraisal for the property as to when the last one was done and whether or not there should be one at this time.

Mr. Farley advised that any appraisal had been done in 1994 and staff felt it was accurate. Mr. Friery advised that this is not a real estate loan; that the transaction includes a tenant that is transient and valuable; that the market value is not critical.

Councilman Cohn asked that if the Kings stay, would the city be able to keep our costs down to which Mr. Friery replied that this loan would have an interest rate variable with a hedge contract for ten years.

Councilman Steinberg asked about the worst case scenario - team keeps losing, team sells to which Mr. Friery offered that they would not be able to sell and move the team without paying off the loan.

Councilman Steinberg offered that many people think differently. He clarified that the loan must pay off and not with the arena, that this would be a condition of Mr. Thomas' leaving.

Mayor Serna shared that the Council Working Group doesn't want Mr. Thomas to lose money but rather wants a good secured loan and wants the team to be successful.

Councilman Waters asked Mr. Thomas about the \$5 million loss last year; was it his loss only or that of the entire ownership group to which Mr. Thomas replied that the loss was the entire ownership group.

Councilman Waters inquired of staff as to why the ownership partners of the Kings couldn't give us a call and leave town; why wouldn't that happen and how are we legally in a position to stop this from happening. Mr. Waters advised that he doesn't want to own the arena.

Mr. Farley replied that the City should consider the growth and the past track record. He advised that he does not see a scenario where the arena won't perform; that it has a strong track record and has continually increased the numbers.

Mr. Friery advised that the arena would continue to operate if the Kings were to leave.

Councilman Kerth asked what's to stop Mr. Thomas from deciding to leave town; that a decision is made allowing that the team is worth more in another City and they pick up and leave. How do we stop them?

Mr. Farley replied that we would obtain an injunction.

William Carnazzo, Assistant City Attorney advised that the agreements will be constructed in such a manner to protect the City and that he firmly believes the contract can carry such a provision.

Councilman Pannell stated that he was not part of the working Group and therefore has not asked a lot of questions because he believes he understands what is taking place. He is of the opinion that if the team wants to leave - they'll leave. He feels the whole transaction sits with the people you deal with. Mr. Pannell stated that because of television, the Sacramento Kings are known as far away as South Africa. He feels this is a reasonable and fair partnership and that the Council needs to allow for the City to have a chance in keeping a professional franchise.

Councilman Yee stated that he was satisfied with the answers to the many questions he had about this finance matter, that he was ready to move on.

Mayor Serna offered his gratitude to the 'auditors'. Mr. Henry Royer was charged to assess position of the Kings (both team and arena) needs, the offered 'fix' and the risk for the City. Mayor Serna stated that the need was verified 'in spades' and that he is reasonably comfortable with the findings. He continued that he felt the risk was minimal due to the payoff agreed upon.

Mayor Serna offered that he had chosen the four members of the Special Auditing Group for their fierce independence and strong ethic working background.

Councilman Waters stated that the City is not in business to support professional sports. Reminded that there is a great need for police officers and many other things around the City that are of major concern. In closing he advised that he had heard from citizens not only from his district but city-wide; in the over 500 calls he received 95% were opposed to the deal. He stated that he felt the time period given the Council to make this type of major decision was too short; that this was a terrible pressure to be put under and that the toughest part of his role as a Council member was saying 'no' to the deal.

Jim Thomas stated that he admired the job the City Council is doing as well as that of the staff and Working Group. He understands people can come to different conclusions and doesn't want diversity, no threats and no ransom related to this partnership. He offered his gratefulness for the response and interest shown advising that he has the job of being the managing partner only, not the sole owner; that his being here this evening is representative of the other owners and employees. He further advised that when he had been asked if this 'deal' would keep the Kings in Sacramento, it is contingent on getting the needed signage agreement

worked out. Mr. Thomas completed his statement by saying that the owners have tried hard to negotiate and felt that they had worked hard with the Council.

Councilwoman Fargo offered that she has resisted a ticket tax for years and made a concession to try to make the partnership work.

Councilman Kerth warned that he wanted no invasion of the General Funds.

Councilman Yee is satisfied with the collateral offered, that he taken a long look at the 'deal' being entered into and felt there was a secured interest in the team.

Mayor Serna advised that the request for a third party review with open books had been accommodated.

Councilman Steinberg stated that he doesn't want the arena and understands the concerns that had been brought forth during the discussions.

Councilman Waters advised that he could never approve this 'deal' unless Tom Friery (City Treasurer) could look him in the eye and assure him that it was a "good business deal".

Councilman Pannell stated that the services in and for the City are not to be endangered in any way. Felt that all negotiations has been in good faith, that the 'deal' put forth was a good sound business deal.

Public Testimony:

The following spoke in opposition to the Council going forth into business partnership with Jim Thomas:

Abe C. Sussman, Jim Hastings, Billy Leonard, Erik Andersen, Doug Shibberu, Leonard Padilla, Christopher Klein, and Ronald Anderson.

The following spoke in favor of the business partnership:

Ron Grindstaff (Packard Bell NEC, Inc.), Mary Watts (TLC Soup Kitchen), Norm Eilert (Teichert, Inc.), Sam Cole (CalFarm), Don Bailey (Pulsar Video Productions), Ruth Blank (Sacramento Cable), Paul Blankenship (Sacramento Children's Home), Carolyn Reid (Reid Forest Products), Jacqui Bell, Maurice Reed, Sun G. Wong, Wendy Neves, , Larry Miller, Tim Donnelly, Jan Kraft, Ron Melo, Jane Borrego, Janet Kraft, Stephen Roberts, Danny Hernandez, David T. Ajay, Ken Lidster, Jeremy Rose, James Battles, Mark Sharwood, Felipe Jurado, Pat Blunk, Matt Feaster, Raymond Nelson, Al Bundy, Ron Katz, Ed Diprosper and Frank McCormack.

Mayor Serna called for closing remarks by the Council members.

Councilwoman Fargo stated that the last couple of weeks have been tough with lots of hard work looking for the best interest of the City. Ms. Fargo wants the Kings to stay in Sacramento however, she is opposed to any financial assistance. She is of the opinion that it is inappropriate, too risky and not good for the City and feels it will not fix the problem for Mr. Thomas. Noted that the NBA has a small media market; felt the timing was way too rushed and the Council members were not given sufficient opportunity to approach the community and is concerned about the prudent decision during tough financial times in Sacramento. Feeling that she had listened to the citizens, she would be casting a 'No' vote.

Councilman Kerth offered that this has been a tough decision for the Council to deal with. His district citizens are not overwhelmingly excited about the deal. He expressed that this was not the way he had wanted to tackle this task and would have approached it differently. In trying to make the best deal possible for the City he had decided to invest a great amount of his own time as a member of the Council Working Group along with a great amount of his own staff's time; feels the deal is the best it can be. (1) no City operating impact; (2) fully protected from the team picking up and leaving the City 'holding the bag'; (3) doesn't see it as a subsidized deal; three points were met: Sports Policy which was adopted after the Raiders deal was carefully considered at time of adoption; this deal is in line with the Policy. Feels that in all the letters and phone calls received - the City ought to let them go or finance the deal if it can be afforded. In considering all matters involved, Mr. Kerth stated that he felt there were too many good things to let this deal be passed up. He would be voting Yes.

Councilman Cohn stated that reasonable people can disagree. He noted that he had received over 1500 calls and letters and that this had stirred up lots of emotions. He is proud of the residents noting that this was not a black-white issue; had good 'pros' and 'cons', that the electricity and pride generated at being inside Arco with 17,000 others gives value to the community and that the Kings provided the only major sport in town. Mr. Cohn continued that he wants the Kings in town - but: (1) no risk to General Fund; (2) whatever risks to other funds should be spread to other agencies and entities; (3) that something needs to be done to attack the root of the problems.

Councilman Cohn complemented staff on minimizing the risks but felt the bonds were to be backed by full faith of the general funds adding that Mr. Thomas stated he couldn't back risk personally. He also noted that there shouldn't be a loss of jobs if the team leaves - meaning the Arco employees. He offered that he doesn't want to own Arco Arena. Felt that the Working Group and staff have put together the very best deal that could possibly be done. Mr. Cohn stated that without putting this question to a vote - the 'well' was poisoned for future professional sports. He would be casting a No vote.

Councilman Yee thanked the Working Group for a tremendous job well done. He thanked the City Manager, City Treasurer and Bill Farley for the time and clarification offered him. He feels the Council has a responsibility to create and promote a Vision. He asked whether or not we would be able to attract other professional sports to Sacramento without the Kings. Added that there was a vision when the convention center was built. Mr. Yee acknowledges the group who had been responsible for bringing the Kansas City Kings to Sacramento. He feels the deal is fiscally conservative and that with the type of security provided, it is a prudent risk, that there is security for the loan which is what he had been looking for. Advised that this has not been an easy decision for him however has reached the opinion that the City should support the deal as he is not in favor of the Kings leaving town. He would be voting for the deal.

Councilman Steinberg thanked everyone involved in putting together this finance package; he also thanked the public noting that putting everything into perspective, this was a volatile, charged, emotional issue. That as a member of the Council and of the Working Group, Mr. Steinberg felt his position was of one to both listen and lead. He looked to see if: (1) loan properly secured; spent last three weeks probing and searching all sides to the matter. If they either leave or go bankrupt - is the City protected; (2) what of the risk of owning Arco

Arena - the answers he received were satisfactory; (3) what if the City took this issue to the ballot in 1998 - could the money be spent on other City needs - no, it could not; (4) surcharge would be a benefit for the loan to be paid off, \$145 million subsidy to a secured collateral loan; (5) NBA a problem - he is a big fan but troubled by escalating salaries and direction of professional sports. He evaluated what might be best for the City, Mr. Steinberg believes that the Kings add to the community; that by keeping the Kings will be an advantage to reaching a goal of revitalizing the Downtown. That one need to look at whether or not the Kings add to the cultural and entertainment needs of the City. Feels this should not be a divisive issue. Noted that this has been a weighty and difficult decision; invited Jim Thomas to get to know the greater Sacramento by meeting the neighborhoods and the people represented by those on the bench. He offered that he would be voting Yes.

Councilman Waters stated that he had given his closing statement earlier. He thanked the staff and City Manager Edgar for the effort and hours of work but feels the \$11.5 million budget deficit facing the City is closer to \$14 million which has had a great impact on his decision. He would be voting No.

Councilman Pannell stated to the residents of his district that he hopes his record speaks for itself. He advised that he had seriously sat down and thought this issue out. He is of the opinion that this will be good for everybody. He requested his colleagues to respect one another whether they were in agreement with each other or not. Following his reading from a Bee editorial he stated that he would be supporting Mr. Thomas, the Kings and the City.

Mayor Serna advised that when this issue first surfaced he instructed staff, City Manager and the Kings people that we were going to protect the General Fund and look at structuring a secured loan. He stated that he supports the importance of an NBA team, supports the Symphony and feels that the cultural environment includes sports. Mr. Serna feels there are some who will never be convinced of this. He is convinced the staff has provided: (1) a good loan; (2) Mr. Thomas has accepted the loan as structured and (3) the decision will be a good one for everyone.

A motion was made by Councilman Kerth, seconded by Councilman Steinberg to adopt staff recommendations and Resolution No. 97-062 with the understanding that the signage issue for the arena needs to be completed within ten (10) days and the Loan Agreement executed by all parties on or before February 15, 1997. The motion carried on a roll call vote of 5-3 with Council members Cohn, Fargo and Waters voting no.

RESOLUTION 97-062

KINGS FINANCIAL ASSISTANCE

12.0 CITIZENS ADDRESSING COUNCIL AGENCY OR AUTHORITIES BY PERSONAL APPEARANCE OR TELEPHONICALLY ON MATTERS NOT ON THE AGENDA

None

13.0 COUNCIL IDEAS AND QUESTIONS

None

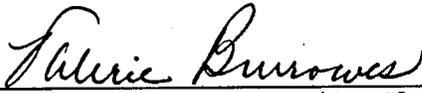
14.0 ANNOUNCEMENTS

None

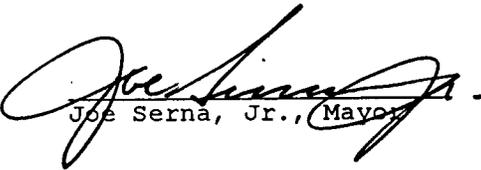
ADJOURNMENT

There being no further action to come before the Council,  
the meeting was adjourned at 10:25 p.m.

Submitted

  
Valerie A. Burrowes, City Clerk

Approved

  
Joe Serna, Jr., Mayor