



A Regional Initiative to Create Jobs and Economic Growth through a New Entertainment and Sports Complex

April 15th, 2012

Think BIG,

Based on your calls, texts, tweets and emails, it's clear many are understandably upset at the conduct of the Maloof family (I have had emails referring to them as "clowns," and "the "three stooges without the brains").

Putting aside the desire to address such character observations, I wanted to:

1. Address the history of this past year's efforts to secure an arena deal and the specifically the Maloof family's representations of the events;
2. Provide some factual information related to their efforts to re-negotiate the deal over the course of Thursday and Friday; and
3. In the spirit of constructive next steps, offer some thoughts on the future.

1. History of the Deal

Nearly one year ago, amidst the fanfare of an epic rally in Cesar Chavez Park, the Maloofs joined hands with Mayor Kevin Johnson, Senator Darrell Steinberg, and other city leaders and pledged to re-commit to Sacramento for at least one additional year. They requested the Mayor in particular to represent the team at the NBA draft; finalize transfer of the \$10M in corporate sponsorships the Mayor had personally raised in support of the team; and publicly champion the Kings and urge the community to buy Kings tickets as an act of civic duty.

As a result of these efforts, and the extraordinary work of an all-star team of the NBA's top sales and marketing specialists deployed to Sacramento to resuscitate an organization that had been depleted and left for dead, the Maloofs sat back and observed literally millions of new revenues flow into their organization.

In fact, at many times this season, the Kings were among the league's leaders in ticket sales. All despite the fresh wounds of an attempted relocation to Anaheim, a protracted league-wide lockout, claims that we were too small a market to support the team, and yes, the team's sixth consecutive losing season.

In parallel, discussions quickly began on the true task: building and financing a new entertainment and sports complex. In May, the Mayor, ICON-Taylor, and NBA flew to Las Vegas to meet with George Maloof to lay out how arena discussions would proceed, and the prominent role the NBA would play in discussions on behalf of the Kings.

With that understanding, all parties began what would become a ten month process of discussions and meetings to reach consensus on the terms of a deal to build and finance the entertainment and sports complex.

Throughout the year, the Maloofs and Kings' representatives repeatedly made statements saying that the NBA was leading their negotiating efforts but that the family was closely following the deal ultimately

reached in Orlando:

In October, team spokesman Chris Clark said, "We've decided to let the NBA take the lead on this, but we are in very close contact with the league and are briefed regularly when new updates are available."

In December, Gavin Maloof said, "We're encouraged that something can be done. Obviously, we're leaving that up to the mayor and the city and the NBA. But the NBA is keeping us apprised of everything that's going on."

At the time, these statements were 100% consistent with the understanding of all other parties – the City, AEG, ICON-Taylor and the NBA. Under this arrangement, all parties were in constant communication in a good-faith effort to surface and resolve the vast array of issues typically involved in a deal of this nature.

By February, after months of lengthy and detailed discussions, the parties had reached adequate common ground to begin to codify the provisions of a deal into a term sheet. It is worth noting that the term sheet largely captured issues and details that all parties were highly familiar with after months and months of discussion.

Conversations continued to further discuss and resolve outstanding issues leading up to a final round of meetings in Orlando during All-Star Weekend.

In Orlando, the Mayor, City, NBA and Maloofs conducted a final round of meetings and discussions to resolve remaining issues. The parties reached a "handshake deal" based on the term sheet that would be finalized and published in time to meet the March 1 relocation deadline and seek Council approval on March 6.

On February 27th, after the deal was reached in Orlando, the Maloofs described the deal in the following ways:

George Maloof: "I think it is a fair deal. We gave a lot. Everybody had to give. Sometimes you have to take chances, and we think this is worth taking." He also added that Commissioner Stern had "served as a nice mediator" and "represented the Kings first." Joe Maloof added, "I'm excited; (I'm) sure the fans are excited. We always said we wanted to stay. It worked out."

On March 1, the final version of the term sheet was published for public review, signifying that the City had met the March 1 relocation deadline. The very next day after the term sheet was finalized and published, George Maloof said that the Kings are "comfortable" with the arrangement.

2. Effort To Re-Negotiate The Deal

It was not until two weeks after the deal was codified in a term sheet signed off on by the NBA, AEG and voted on by the City Council on March 6, that the Maloof family expressed specific reservations about a deal they themselves characterized as "fair" and which they were "comfortable" with.

At that time, the Maloof family pointed to their share of the pre-development costs, which constituted less than 1% of the entire deal. (And less than one-third of the dollars local businesses had pledged a year earlier in sponsorships)

However, over the course of last Thursday and Friday in New York, it became clear that the claims about pre-development costs were merely a smoke screen and that the family really had no intention of living up to their promises.

In a presentation to the NBA Board of Governors, the family claimed to have sent the City a marked up term sheet in advance of the March 6 City Council vote.

This representation that they provided a marked up term sheet to the City is a flat out inaccuracy. No

such document was ever presented to the City by the family prior to the March 6 vote. The City dealt directly with the NBA, which is who the Maloof's empowered as their negotiating representative.

Then on Friday, the Maloofs, clearly believing they had leverage over the City, reached out to schedule a meeting with the Mayor at the offices of the Maloofs' attorneys across town.

Mayor Johnson, who had made absolutely clear in advance of the meeting that there was going to be no re-trading or re-negotiating on the deal, was very forceful in expressing the view that the family was not negotiating in good faith. He cited how their reasons for not approving the deal kept changing: first it was predevelopment, then the 2015 timeline, then environmental review issues, parking concerns, revenue projections, and so on.

It had become abundantly clear that the Maloofs had no real interest in the deal, and therefore no real interest in Sacramento.

After acknowledging that the City had in fact not received their "marked up term sheet," they pressed the Mayor to renegotiate key terms of the Orlando deal, including:

- They refused to commit to the long-term 30 year commitment to remain in Sacramento that had been a cornerstone justifying the public's considerable investment.
- They refused to pay predevelopment expenses
- They refused to pay standard game day expenses for the arena such as the wages for ushers and ticket-takers at Kings games
- They refused to pay for basic municipal services required for game days, such as police, fire and traffic control, even though they currently pay these at Power Balance Pavilion
- They refused to agree to pay all the general arena-related taxes owed to the city

And then, on top of all of this, they asserted that the proposed deal was not in the best interest of the City, which coming from the Maloof's is a little like getting weight loss advice from Fat Albert.

But there was one issue that ultimately ended the discussion: the Maloofs' refusal to provide security or collateral for a refinancing of the Kings loan.

As someone who had made protecting taxpayers a bedrock principle of the negotiations, the Mayor was appalled that the Maloofs, whose highly publicized financial challenges were known to the entire free world, would refuse to offer adequate collateral to the taxpayers of Sacramento in the event of a default with profound risk to the City.

No more needed to be said about the Maloofs' commitment to the people of Sacramento.

Discussion quickly shifted to how the situation would be communicated to media. The Maloofs and their associates were visibly concerned about public perception and requested a joint statement with the Mayor framing this as a "no-fault divorce."

The Mayor politely declined, shook hands, and exited the building.

3. Next Steps

What is clear for all to see is that what is really going here is that the Maloof's do not have the financial ability to fulfill their commitments as outlined in the arena term sheet that the Sacramento City Council approved on March 6th.

A little over a year ago, the Maloofs attempted to move to Anaheim. The terms of the arena deal that the Maloofs agreed to on February 27 in Orlando were better than the arena deal terms that Anaheim represented. However, what Anaheim was truly about was a personal loan to the Maloofs, presumably to help them with their financial challenges.

On March 6, when the City Council voted to move forward, the Maloofs were given something that most people never receive: a chance to redefine themselves in the community.

However, just because they squandered that opportunity does not mean that Sacramento should not begin to consider its next steps.

The fundamentals of this deal and of Think BIG remain intact:

- A downtown entertainment and sports complex that creates 4,100 jobs, \$7B and catalyzes revitalization of the entire downtown is in the best interests of the City
- Sacramento remains a viable NBA city that the League clearly respects and has demonstrated a strong commitment to;
- A finance plan for such a facility is largely in place provided all parties possess the financial wherewithal and good faith to participate

Amongst those next steps to potentially consider is the approach taken by the City of San Francisco when it looked like the San Francisco Giants were going to re-locate. In San Francisco, a local community group came together to present an alternative ownership group to Major League Baseball.

In the coming days and weeks we will be reaching out to you both formally and informally for your thoughts and advice on the road ahead.

Think BIG will continue to support the Mayor, Council, and people of Sacramento as we work to create jobs and economic development for this community.

Regardless of what happens next, Sacramento has made it clear to all that we are a community that will fight for our future.

Sincerely,

Chris Lehane
Executive Director