Design and Operations Questions

1. **Do you have WA State sales tax in your project budget?**

   Construction sales tax was included in initial cost estimates which yielded a total project cost of almost $600 million. As part of Seattle Partners' efforts to reduce overall project cost to a more feasible sum, we are requesting consideration of arrangements that could eliminate or mitigate this tax burden. Accordingly, our current project budget does not reflect this sales tax on construction.

Financial Team Questions/Requests

<u>Facility Questions</u>

1. **After the initial redevelopment, if any, would be required to make the facility read if an NBA and/or NHL tenant is found? Would the terms of the agreement change if there is an NBA and/or NHL tenant?**
   No company owns or manages more NBA and NHL venues than AEG. Seattle Partners was focused on a design to meet current or exceed NBA and NHL League standards. We utilized those guidelines in our design direction. Given our experience in owning and operating NBA and NHL facilities, most recently T-Mobile Arena in Las Vegas, Seattle Partners is keenly aware of the current standards. Due to the robust design presented by Seattle Partners, we do not anticipate significant changes to the Seattle Coliseum for a resident team. By creating a new lower bowl, our design exceeds the capacity minimums from both leagues. At T-Mobile Arena, AEG took a similar approach to preparing for a resident team. Team specific spaces, such as locker rooms, will need to be finished to team specifications. Minor adjustments to broadcast and camera positions will be made within the proposed TV infrastructure. Team specific changes to the team retails shops will also be made once a team(s) is secured.

2. **Please provide a financial operating pro-forma for a building occupied by an NBA tenant, an NHL tenant, and/or both.** Similar to our approach toward the initial operating pro-forma at T-Mobile Arena and elsewhere, we have created a proposal that provides flexibility to attract both an NBA and NHL tenant, without the need or expectation for additional arena economics resulting from such team. We feel confident based on our experience that we can provide incentives to a potential team that are economically compelling, which is a requirement of any effort to attract an NBA or NHL tenant. These incentives could include a share of sponsorship revenues, premium seating revenues, concessions revenue, and, at the City's discretion, could include a rebate of some or all of the admissions taxes generated

from the sale of sports team events We look forward to meeting with members of the Mayor's Advisory Board or City of Seattle staff members to provide more insight into potential financial arrangements with NBA or NHL teams and how those arrangements would impact the Seattle Coliseum's operating model.

3. **Do you have specific plans to help relocate Pottery Northwest or the Seattle Center Gardener's Complex?**
   As the ancillary development is still being refined, we look forward to incorporating the necessary requirements by the city to relocate existing tenants.

   On page 383, reference is made to "ancillary development opportunities." Please provide additional information about what those opportunities are. Will Seattle Partners manage and maintain? The ancillary development is still being refined, but our initial intention is to offer mixed-use opportunities that would complement the existing uses in the area. This includes possible residential, retail, office and food and beverage options. Seattle Partners, or an affiliate, would likely develop such a project itself, but we would want to retain flexibility to bring in additional development partners.

4. **When will the lease commence? Will rent begin when Seattle Partners assumes control of the Redevelopment Site?**
   The proposed lease would begin at the commencement of construction (with the Notice to Proceed). Seattle Partners would commence rent payments to the city upon commencement of operations of Seattle Coliseum.

5. **What is the rationale behind the amount of the annual capital reserve? Is this amount meant to cover only the arena or does it cover the additional facilities included? What is the anticipated annual need? Over a 10-year basis? Over a 35-year basis?**
   Based on AEG's deep knowledge of operating and maintaining new and renovated arenas, Seattle Partners proposes a graduated contribution scale for maintaining a capital reserve. Our experience dictates, and our capital reserve plan supports, less capital needs with a new arena, and increasing growth of the reserve fund as the venue ages. As the life-cycle of arena equipment reaches its end, the capital fund is designed to be meet and exceed those needs. Detailed needs over the extended life of the Seattle Coliseum will be determined as equipment and FF&E is identified as our concept is refined.
   Please describe the spending plan for these funds.
   The mission of Seattle Partners in developing short-term and long-term capital plans is to meet or exceed our mutual goal to preserve and enhance the long-term integrity and beauty of Seattle Coliseum. Our short-term planning model focuses on a rolling three-year time period. The long-term model will look beyond the installation

and commissioning period of the equipment to the end of the expected life of the facility. Even in a renovated facility, the capital planning process begins immediately as the commissioning of new equipment will impact the operation and life cycle of building equipment for years in the future. With an iconic venue, as is Seattle Coliseum, AEG's world-wide experience in owning and managing venues has taught us to take such an approach to capital expenditure planning and execution. Additional information can be found in the operations section of Seattle Partners' response

Financial Questions

1. **Please provide Excel files for the financial exhibits and projections (e.g. Bond Financing Schedule). Please provide assumptions and any supporting data or worksheets that will help us understand your projections. We'd like to understand if/how Exhibits 1 and 2 tie into the projections**.
   We are happy to provide the details to the financial model. Due to the proprietary nature of our financial models, we would prefer to provide and review them in person in our upcoming meeting. We look forward to the opportunity to review with you in person.
2. **Please provide a more detailed operating pro-forma. We would like to see by type of event, rent, labor reimbursements, concessions, ticketing, facility fees, merchandise, and any other revenue categories. Similarly, please provide a more detailed description of the projected expense categories such as event labor, utilities, taxes, maintenance (routine and major), etc.**
   We are happy to provide the details to the financial model. Due to the proprietary nature of our financial models, we would prefer to provide and review them in person in our upcoming meeting. We look forward to the opportunity to review with you in person.

3. **What are the revenue streams anticipated from the office/residential buildings referred to in the proposal? If they are included in the in the pro-forma provided, please provide separate break out pro-forma for each facility. Where do they fit into the $55 million (office buildings, residential/food and beverage/underground parking)? Please provide a detailed breakdown of the $55 million of annual revenue shown in your proforma.**

   Revenues from ancillary development are not included in our operating projections. Seattle Partners envisions ancillary development being driven primarily by the desire to bring additional complementary amenities and uses to the campus rather than by the economic opportunities associated with such development. Given the limited entitlement and relatively modest program currently contemplated, our initial projections indicate that any revenues from these ancillary structures will be needed to support the capital investment required to construct the improvements and will not support any material residual land value.

4. **Projected revenue from the $5 per ticket facility fee increases by an average of 5% per year in the first three years of operations and by 2.3% over the 35-year lease period (response pdf page 472). Is the basis for this change an increase in ticket sales, an increase in the fee, or some combination of the two? If it is the latter, please specify the assumptions for each component of the increase. Is the fee charged on all tickets for all events?**

   The increase in the first five years is comprised of a combination of increased event count and annual escalation. Beginning in Year 5 the increase is attributable to annual projected escalation.

5. **On response pdf pg. 383, the proposal states, "Ensuring that (a) construction costs incurred to redevelop the Arena as contemplated in this proposal are not subject to the imposition of sales, use or business and occupational taxes, and (b) the Arena does not become subject to the imposition of any property, possessory interest or similar tax during construction or operation." Are these taxes what is being referred to in the use credit of $47.8M for Government fees/taxes in the sources and uses table on response pdf page 463?**

   Yes. this number reflects our estimate of sales and use taxes, property taxes, and other city taxes and fees during development.

If not, please explain the latter figure. How should the $47.8M on page 463 be reconciled with the $50.4M in estimated construction period tax revenue shown in Exhibit 1 on response pdf page 471?

Exhibits 1 and 2 are third-party estimates of all taxes to be generated by the project. These exhibits are intended to be responsive to the RFP request for an estimate of taxes generated. While the taxes in these schedules are similar to those in the model, these exhibits were not used in preparation of the financial models, and they may contain different items than those in the model. For example, Exhibit 1 includes payroll taxes, but such taxes are not included in $47.8 million government fees/taxes. conversely, the government fees/taxes include permitting and other fees that aren't included in Exhibit 1.

6. **The proposal states that one of the sources for City bond repayment is a portion**

of the City's share of incremental taxes for the operation of the redeveloped arena (proposal pdf page 385). We assume that these incremental taxes are the City taxes in Exhibit 2 on pdf response page 471 and that total projected tax revenues from the arena should be the amounts in the table plus the 2014-2016 baseline figures. Is this correct?

No. See Number 5 above. Exhibit 2 includes admissions taxes relating to NHL and NBA teams, but our proposal does not include incremental taxes for NBA or NHL events.

If so, please provide the 2014-2016 baseline figures that were used.

These baseline figures were obtained from the city prepared document entitled "Taxes Generated by KeyArena and 1st Ave N Parking Garage."

7. **Please provide detailed information on how the tax increment estimates in Exhibit 2 were calculated**.?

   We are happy to provide the details to the financial model. Due to the proprietary nature of our financial models, we would prefer to provide and review them in person in our upcoming meeting. We look forward to the opportunity to review with you in person.

8. **Please provide detail on the projection/calculation of the net Sponsorship and Premium Seating estimates?**

   We are happy to provide the details to the financial model. Due to the proprietary nature of our financial models, we would prefer to provide and review them in person in our upcoming meeting. We look forward to the opportunity to review with you in person.

9. **In regards to using rent plus taxes plus facility fee as a cumulative source to pay debt service and use against shortfalls in future year revenues, what happens to any interest earned on these funds during that time?**

   Taxes and fees will be paid on a recurring basis to the city, based on a remittance schedule to be mutually agreed upon by the parties. Once rent, taxes and fees are remitted, the City would be free to spend such amounts and Seattle Partners has no expectation of participating in any interest that may be earned on those sums while they are held by the City.

10. **If cumulative payments can be used for shortfalls in future years, is the intent that the City hold all the revenues in reserve throughout the agreement term in case**

there is a shortfall in some future year?

No. Surplus proceeds would be for the benefit of the city to be used at City's discretion. Further, to avoid a situation where subsequent debt service payments would not be fully funded by project revenues and shortfall payments from Seattle Partners, we are clarifying our proposal to limit refunds of shortfalls only to circumstances where the shortfall payment preceded the surplus.

Would there be intended or restricted uses of the surplus?

No**.**

Which party has control or discretion over use those funds?

The City has control or discretion.

Could the City pay down the bond principal with a portion of the surplus if it chose to do so?

Yes.

11. **Please provide a list of other U.S. municipalities that issued bonds or similar debt to finance the development of arena projects in partnership or agreement with AEG and/or Hudson Pacific Properties. For any such arena projects, please provide (a) amount of government bonds or financing instrument originally issued, (b) sources of revenue for bond payment, and (c) indicate whether anticipated revenues have been sufficient to cover payments.**

- **EXAMPLE 1:** City of Los Angeles provided $70 million of funding for the Staples Center project in 1998. The funds were used to acquire land around the proposed arena site and to conduct site preparation work (demolition, utility relocation, etc.). Of the amount funded, $12m was an outright grant – the remaining $58 million came from a combination of city bond proceeds and city reserve funds. Certain project related revenue streams (principally an admissions fee and incremental revenue generated in nearby city parking lots) were identified as source of repayment for both the city bonds and the reserve funds used to fund the project. The AEG entity developing the project committed to guarantee payment of any shortfalls through a gap funding agreement. In the early years of operation there were small shortfalls which the developer funded per the agreement. For most of the 18-year life of the arena, the identified revenue sources have exceeded the payment obligations.

- **EXAMPLE 2**: City of Kansas City provided $200 million of funding toward the construction of the sprint center in 2007, which AEG has been managing pursuant to a long-term management agreement secured by AEG in exchange for contribution of approximately $53 million toward the cost of construction and the assumption of operating risk. A city-wide car rental tax was imposed in connection with this project and that car rental tax has served as the sole source of repayment of the city's bond obligations.

- **EXAMPLE 3:** The City of Houston provided public support toward the construction of BBVA Compass Stadium (home of the Houston Dynamo MLS team then owned by AEG). That support included $20m of TIRZ bond proceeds (representing almost ¼ of the total project cost). These bond proceeds were secured by and have been funded out of property tax increment generated within the redevelopment zone in which the stadium project is located.

12. **What collateral is being offered up in order to guarantee the proposed bond payments?**

    No specific collateral is being proposed to guarantee the bond payments. Seattle Partners, a joint venture between AEG and Hudson Pacific Properties, will be a well-capitalized entity with significant equity invested by both firms. Further, under even the most conservative projections, Seattle Coliseum is expected to generate significant positive cash flow from operations once the project is complete. In light of these factors, Seattle Partners believes it will be a creditworthy entity more than capable of fulfilling its financial obligations to the City under both the Lease Agreement and the Development Agreement. However, to mitigate any perceived risk during the development phase of the project, Seattle Partners does anticipate providing the City with the benefit of completion guaranties from parent entities reasonably acceptable to the City. Further, to the extent that the City determines that any of the on-going obligations of Seattle Partners during operation (e.g. payment of rent or the shortfall funding obligation described above) require additional credit enhancement, AEG and HPP are willing to explore the possibility of guaranties or other forms of credit support.

13. **Did you consider a 100% private financing approach, and if so, what lead you to decide on partial public financing?**

    Yes, AEG and Hudson Pacific Properties began this process with the intention to propose a plan solely funded by private capital without any city bonding involved. However, as the estimated costs of the project increased substantially from original projections, it became clear that the prospects for successful execution (i.e. both delivering a completed project and also attracting an NBA and/or NHL tenant) would be greatly enhanced by taking advantage of the city's bonding capacity and relatively favorable cost of capital.

14. **Does the proposed public bond financing plan comply with the State of Washington law prohibiting tax increment financing?**
    Yes. This proposed bond issuance is not supported by any property tax increment and therefore is not implicated by those prohibitions. Further our review of the city's debt policies indicates that the proposed issuance is consistent with the requirements set forth in those requirements (in particular, Policies 10 and 11). Finally, we have reviewed the city's bonding capacity limitations and understand that there is ample

capacity to accommodate the proposed issuance.
Was this considered? Yes.

15. If public financing cannot be issued, or issued at a lower level than requested, does Seattle Partners have an alternative source of financing? If so, please describe.

Seattle Partners is exploring the availability of alternative sources of financing in the event the City is unable or unwilling to issue bonds in an amount contemplated by our initial proposal. In particular, we are in the process of assessing the possibility of utilizing some or all of the revenue streams proposed to support the City bonds (rent, facility fees and incremental taxes) to instead support the issuance of long-term private bonds underwritten by one or more financial institutions. However, such an alternative (if available) would likely involve a higher cost of capital and lower level of leverage, which could impact the feasibility of the project or could impact other proposed terms.

16. If there are incremental taxes received from the addition of an NHL and/or NBA team, what are you proposing they would go towards?

In the first instance, the additional taxes would be available for use by the City as it determines appropriate and desirable. To the extent that securing an NHL and/or NBA team may require any public incentives, the City would have the flexibility to utilize some or all of these incremental admissions taxes as a mechanism to offer such an incentive.

You state they would be excluded from the City's share of incremental taxes that would repay the City Bonds. If collected by the City, what is your estimate of the taxes generated by these activities? How would it impact the projected tax streams from other events (e.g. NBA or NHL games means fewer concerts to sell)?

We estimate that incremental admissions taxes for an NBA or NHL team would be approximately $4 million - $5 million per team annually. We believe there would be a small number of displaced events due to the presence of a team, so we do not anticipate a material reduction in the admissions taxes collected from other events. A team would also generate incremental parking tax and B&O tax resulting to the City.

17. Please detail how you arrived at the approximately $4 million number you project for facility fee revenue.

We are happy to provide the details to the financial model. Due to the proprietary nature of our financial models, we would prefer to provide and review them in person in our upcoming meeting. We look forward to the opportunity to review with you in person.

18. **Of the other arenas you operate, especially those in similar markets to Seattle, what has been the number of events (by type, if possible) hosted each year for the past 3-4 years? How much revenue was generated from events? How much other revenue have the arenas generated (by type, if possible).**
    Seattle Partners will be pleased to provide a comparative analysis of event revenue from similar AEG venues. Due to the complex nature of obtaining this information, the detail requested will be provided at a later date.

<u>**Campus Impact Questions**</u>

1. **How will the maintenance be handled for additions beyond the Redevelopment Site footprint and who will fund (e.g. fitness trail, art installations, Thomas St. greening, etc.)?**
   Seattle Partners has built in a level of maintenance and cleaning funding for areas outside of the arena. Certain areas will be under the maintenance control of others, such as SDOT and Seattle Center. Seattle Partners will work with these agencies to develop a maintenance program to adequately maintain these areas. Areas within the redevelopment boundary will be maintained with common area maintenance assessments. Some of this funding may be used for the areas mentioned above.

2. **How did you come to the valuation of $1 million for campus sponsorship rights?**
   Seattle Partners took the existing sponsorship budget (including the 2-year leading and training amounts in the Seattle Center budget) and modeled the growth potential tied in to a new arena on campus.

3. **The proposal refers to "offsite parking" for trucks used for load in and load out of shows**? **Where will this parking be located?**
   Off-site parking has not been specifically secured at this point. Through our work with Nelson/Nygaard we have identified potential locations in Interbay. Also, we would work with Seattle Center to utilize Memorial Stadium for truck parking as is currently the case.

4. **The proposal suggests capping utility costs at a historical average. Does this mean that the City will pay for increased utility costs associated with the increased size and heavier event load of the new arena?**
   The primary intent of Seattle Partners in putting forward that proposal was to

provide protection against significant utility cost increases resulting from rate changes. Seattle Partners is open to refining its proposal to avoid the City bearing the burden of increased utility costs resulting from the increased size and heavier event load of the Seattle Coliseum relative to the Key Arena.

General Question

1. **When you built Sprint Center in Kansas City, it was with a similar goal of trying to bring a professional sports team to the city.**
   Much like Seattle Partners is proposing for the Seattle Coliseum, Sprint Center was built to NBA and NHL specifications. The team use areas in Sprint Center are being used for other building functions to help Kansas City attract a wide variety of sports and entertainment events. If a team is secured in Kansas City, team use spaces will need to be remodeled to meet team-specific needs. This is how we approached Seattle Coliseum.
   Why was a team not able to be secured and why is this situation different?
   A local ownership group that is capable and willing to make the required investment in an NBA or NHL team has never emerged in Kansas City. While potential ownership groups in Kansas City have expressed an interest in bringing a team to that market, the rapid appreciation in franchise values over the last decade have made it difficult for such ownership groups to rationalize an economic proposal that would support the investment required to secure a team through expansion or relocation. Seattle Partners strongly believes that Seattle presents a different situation, as the size and nature of the Seattle market is suited to attract and support the necessary investment to secure a team. In fact, in recent years, AEG has been approached by multiple prospective ownership groups expressing a very strong interest in placing an NBA or NHL team in the market, with many of these groups indicating both the wherewithal and the desire to make the required investment to acquire a team. While there are no guarantees regarding if and when an NBA or NHL team would come to Seattle, we are highly confident that if Seattle Partners' proposed project were to proceed, the prospects of a professional basketball or hockey team moving to the Seattle Coliseum would be extremely strong.

Legal Team Questions/Requests

City Bonds and Seattle Partners Guaranty of Repayment (proposal page 386)

1. **Please specify any covenants that will be required from the City in connection with the proposed City bonds.**
   We have not evaluated what specific covenants would be required of the city, but assume that a successful issuance of bonds would include customary borrower covenants consistent with similar municipal financings.

   When do you anticipate the bond sale occurring?

   Shortly before the start of construction (i.e. following completion of transaction documents, entitlements, design and a GMP contract for construction).

   Please confirm each revenue source proposed to pay debt service on the bonds and for each: 1) clarify when each revenue stream will be available to pay debt service (e.g. will facility fee revenues be available for initial years of debt service if bonds issued at beginning of construction?); 2) clarify whether there are eligible portions of project costs (e.g. parking taxes can only be used to support transportation related costs); and 3) for incremental taxes, please clarify assumptions for each city tax during construction and operations. Who will be responsible for costs of issuance and debt service reserves?
   Revenue streams available to pay debt service include rent, facility fee and increased amounts of admissions tax, business and occupations tax and parking taxes received by the City as a result of the project . To the extent that these revenue sources are not sufficient to cover the city's debt service on the bonds, Seattle Partners would be obligated to make up the shortfall to the city. The bonds would be structured so that principal payments would not be required until after, and interest would be capitalized during, the development phase of the project. Increased parking taxes are expected to comprise only a small portion of the revenue to repay the bonds, so we expect there will be sufficient transportation related costs in the project to support the use of those taxes.
   Our model assumes that incremental taxes are determined by measuring the increase in those taxes relative to a baseline measured as the three-year historical average over the period preceding the project.

2. **Please describe the scope of your proposed guaranty of any shortfall in the funding sources for the City's bond repayment obligations. Please provide the specific entity information for the entity or entities providing the guarantees, with the understanding that City will need further assurances of the credit worthiness of such entities. Note that in addition to guaranties of the bond repayment obligations, assuming the City will**

require guaranties of Seattle Partners' obligations under the Development Agreement and Lease Agreement, describe any difference in guarantors for those obligations.
Seattle Partners, a joint venture between AEG and Hudson Pacific Properties, will be a well-capitalized entity with significant equity invested by both firms. Further, under even the most conservative projections, Seattle Coliseum is expected to generate significant positive cash flow from operations once the project is complete. In light of these factors, Seattle Partners believes it will be a creditworthy entity more than capable of fulfilling its financial obligations to the city under both the Lease Agreement and the Development Agreement. However, to mitigate any perceived risk during the development phase of the project, Seattle Partners does anticipate providing the City with the benefit of completion guaranties from parent entities reasonably acceptable to the City. Further, to the extent that the city determines that any of the on-going obligations of Seattle Partners during operation (e.g. payment of rent or the shortfall funding obligation) require additional credit enhancement, AEG and HPP are willing to explore the possibility of guaranties or other forms of credit support.

3. **Verify whether the proposed facility fee is static during the bond repayment term or is subject to increase (e.g., CPI)?**

   Seattle Partners' model assumes a 2% annual increase in the facility fee.

<u>Lease Term and Structure (proposal page 383)</u>

1. **The financial terms of lease renewals in your proposal are unlikely to be acceptable to the City. We invite you to offer more competitive terms relating to base rent, incentive rent, reserve fund deposits and tax increments applicable during renewal terms.**
   Seattle partners is prepared to consider modifying its lease proposal during the renewal term, including the potential continuation of rent for the entire term.
2. **Provide additional details about a lease structure which would achieve AEG/Hudson's stated objective of "[e]nsuring that (a) construction costs incurred to redevelop the Arena as contemplated in this proposal are not subject to the imposition of sales, use or business and occupational taxes, and (b) the Arena does not become subject to the imposition of any property, possessory interest or similar tax during construction or operation."**
   Seattle Partners would like to explore a dialogue with the city to ascertain whether the transaction could be structured in a way to avoid subjecting the project to sales tax during construction or to property tax during construction and operations. If this objective cannot be achieved with the ground lease structure initially proposed by Seattle Partners, we would be open to considering alternative structures, such as an operating lease of the improved project, that would preserve continued public ownership of the arena, although there are potential structural impediments to such a structure that we continue to analyze internally.

3. **You state that if the Project does become subject to the above taxes, you will seek to**

modify certain of the economic terms set forth in the proposal to account for the impact of those additional taxes. Please specify those modifications.
If the parties conclude that the project will be subject to these taxes regardless of transaction structure, then Seattle Partners would like to pursue alternative arrangements with the city, such as in-kind support, tax rebates and fee waivers, to alleviate some or all of the burden that these taxes pose for the project, as our current financial model does not reflect the payment of these taxes.

4. **“Exclusive Rights” (proposal page 385) Further detail your proposed 30-year exclusivity provision which would prohibit the City from support of an “Alternative Venue.” Additionally, assuming the scope as currently proposed may be unacceptably broad (i.e., directly or indirectly, finance, subsidize, provide any incentives for or otherwise assist any Alternative Venue), please propose a more limited scope of proposed restrictions which would work with your existing financial model.**
Given the magnitude of the investment required for this project, we believe the requested exclusivity is reasonable and appropriate; however, we would be prepared to explore a shorter duration of protection and perhaps other modifications to reduce the scope if it is not acceptable to the city as proposed.