

**MINUTES OF A WORKSHOP OF
THE SPORTS AUTHORITY OF THE COUNTY OF
KNOX AND THE CITY OF KNOXVILLE, TENNESSEE
February 8, 2022 – 9:09 AM**

The workshop of the Board of Directors of The Sports Authority of the County of Knox and the City of Knoxville, Tennessee (the "Authority") was held at 9:09 AM on Tuesday, February 8, 2022, in Bailey Hall of the Knoxville Museum of Art located at 1050 World's Fair Park Dr., Knoxville, TN 37916.

Nikitia Thompson, Vice-Chair of the Sports Authority Board of Directors, called the meeting to order. The following Directors were present, constituting a quorum: Joan Cronan, Jeff Hagood, Tim Hill, Nikitia Thompson, and Rosalyn Tillman. Alvin Nance and Richard Bass attended via teleconference. Also present were: Stephanie Welch, Chief Economic and Community Development Officer and Deputy to the Mayor of the City of Knoxville, Chris Caldwell, Chief Financial Officer and Deputy to the Knox County Mayor, Doug Kirchhofer, Chief Executive Officer of Boyd Sports, LLC, Mark Mamantov, Attorney at Bass, Berry & Sims, PLC, R. Culver Schmid, Attorney at Baker, Donelson, Bearman, Caldwell, & Berkowitz, PC, and Olamide Oso, Attorney at Baker, Donelson, Bearman, Caldwell, & Berkowitz, PC. Members of the media and other visitors were also in attendance.

Welcome

Mr. Hill introduced Randy Gibson, Chief Executive Officer, and W. Barry Brooke, Executive Vice President, both of LawlerWood, LLC. Mr. Hill explained that Mr. Brooke serves as the owner representative and construction consultant for the Authority and since 1984 has amassed extensive experience in real estate development focusing on construction and project management.

Workshop Overview

Mrs. Thompson acknowledged that she served as chair for the meeting in the absence of Mr. Nance. Mr. Nance and Mr. Bass observed the meeting by video conference.

The purpose of the workshop was to review the redlined versions of the Development, Lease, and Infrastructure Agreements associated with the multiuse stadium project and vote on a resolution to approve those agreements.

Mrs. Thompson also explained that although no one had yet signed up to speak during the Public Forum portion of the meeting, anyone present who would like the opportunity to speak could do so at the end of the meeting.

Review of the Lease Agreement

Mr. Mamantov presented changes to the Lease and Development Agreements that had occurred since the January 12, 2022, meeting. Mr. Mamantov explained that negotiations continued on some insurance items but that all the agreements were substantially in their final form and ready to move forward. The Authority was not expected to sign either the resolution or the agreements at the workshop, they would only vote on whether to approve the resolution and thereby the agreements.

The changes to the Lease Agreement that Mr. Mamantov explained and any discussion about the same are as follows:

1. Change to the force majeure language to address the effects of a pandemic as requested by Mr. Hagood to adequately protect the Authority.
2. The Authority will hire an insurance consultant.
 - a. Mr. Hagood asked who that would be. Mr. Mamantov answered that the County's insurance consultant, Gallagher, is prepared to serve the Authority as well.
3. The Authority will carry the rent insurance as an addition to the casualty policy.
 - a. Mr. Schmid asked if that would be at the expense of the Authority. Mr. Mamantov replied in the affirmative and explained that it would be an addition to the property insurance policy that the Authority previously agreed to purchase which would be funded by the City and County.

- b. Mr. Hagood asked if Gallagher advised that \$10 million in umbrella coverage would be sufficient. Mr. Mamantov stated that the amount is something Gallagher is being asked to review. That amount will need to be increased over the 30-year period of the agreement.
- 4. Rent will be prorated per day if the stadium is not ready predominantly by the fault of a party other than the tenant. Mr. Mamantov gave an example of the movement of public infrastructure off the building site not being completed in time. If the team is unable to move into the stadium by May 1, 2024, they will not be able to play baseball that season and therefore the first rent payment will be delayed until December 1, 2024.
- 5. In case of a capital improvement emergency, Mr. Nance will be able to sign off on the approval to begin work. The Authority would then be called to meet and approve the expense to the capital improvement fund.
 - a. Mrs. Thompson asked if there was a particular dollar amount that would cause an issue to be considered an emergency. Mr. Mamantov answered that any expenditures that are not part of the Sports Authority-approved capital improvement plan would be considered an emergency. Mrs. Thompson then asked at what point does an issue come to the Authority. Mr. Mamantov explained that all expenditures from the Capital Improvement Fund must be approved by the Authority. The language allows the tenant to begin work to fix the problem without having to wait on a certified approval.
- 6. Clarifications added to the Diverse Business Enterprise (DBE) Community Commitments section based upon advice from the Civil Rights attorney with 40 years of experience.
- 7. Language provided by Rev. Kessler has been added to the DBE Community Commitments Provisions section as suggested by Mrs. Thompson.
- 8. Language required by Major League Baseball (MLB) that states that the language in the lease is subordinate to MLB rules. Subsection B mitigates most of the risk.
 - a. Mrs. Welch asked if it is his opinion and the opinion of the legal advisor that Subsection B mitigates to the greatest degree possible, the concerns about the subordination language. Mr. Mamantov answered in the affirmative and explained that Subsection B limits the reach of the subordination language to make it more reasonable.
 - b. Mr. Hagood asked what impact if any would a continued lockout have. Mr. Kirchhofer replied that it would have no impact because minor league players are not a part of the MLB.
 - c. Mrs. Thompson asked if the subordination language is included in all the MLB's agreements. Mr. Mamantov stated that it is included in all agreements for new or recently substantially renovated stadium agreements that have had to be renegotiated.
 - d. Mrs. Tillman asked if any changes could be added to counter Subsection B in the future. Mr. Mamantov explained that due to Subsection B, it is unlikely that a major issue would arise to which the Authority would not be agreeable or willing to negotiate.
 - e. Mr. Hill asked if Mr. Mamantov would summarize the number of ways that the lease could be terminated. Mr. Mamantov explained that other than a default, a disagreement on a capital improvement that could not be resolved within six months would be the only other way to terminate the lease.
 - i. Mr. Kirchhofer stated that in his judgment the team's interests are more closely aligned with those of the Authority, the City, and the County than with those of the MLB. An unreasonable demand made by the MLB would adversely affect the team as well. The team would work diligently to help find a solution that would allow them to stay.
 - ii. Mr. Mamantov mentioned that an MLB decision of the magnitude required to cause such an issue would not only apply to this project but all Minor League teams. Mr. Kirchhofer added that 119 teams across the country would be affected.
- 9. Language was added at the team's request to tie in the other agreements that are important or relevant to the Lease Agreement.
 - a. Mrs. Tillman asked if an Internship Program Agreement would also be brokered and associated with the other agreements. Ms. Welch stated that would be driven by the committee-level agreements with individual entities.

Review of the Development Agreement

Mr. Mamantov explained that many of the changes made to the Development Agreement were like those made to the Lease Agreement.

The changes to the Development Agreement that Mr. Mamantov explained and any discussion about the same are as follows:

1. Clarifications added to the Diverse Business Enterprise (DBE) Community Commitments section based upon advice from the Civil Rights attorney with 40 years of experience.
2. Language provided by Rev. Kessler has been added to the DBE Community Commitments Provisions section as suggested by Mrs. Thompson.
3. In the definitions, there was a change to the force majeure language to address the effects of a pandemic as requested by Mr. Hagood to protect the Authority.
 - a. Mr. Hill asked Mr. Mamantov to explain some of the performance guarantee issues. Mr. Mamantov explained that in the case of a default under the Development Agreement, the developer will provide a \$5 million letter of credit. A letter of credit is currently in negotiations to secure the \$650,000 per year benefit through incremental tax revenues to the community represented by the private developments directly surrounding the stadium as well.
 - i. Mr. Hagood asked if the \$650,000 is a negotiated number. Mr. Mamantov explained that the incremental tax revenue is an estimate based on the private development plans.
 - ii. Mr. Schmid asked if the \$5 million construction letter of credit will be in a subsequent document and if the \$650,000 tax letter of credit will be included in the private development agreement. Mr. Mamantov stated that the construction letter of credit is still being negotiated and is subject to approval by the Authority. The tax letter of credit will be included in the private development agreement.
 - b. Mr. Hill asked if the tax increment financing (TIF) will be split with the Authority. Mr. Mamantov expressed that is what is being anticipated as of now. Mr. Hill then asked how the payment in lieu of taxes (PILOT) will be monetized. Mr. Mamantov explained that the PILOT payment will equal 50% of the taxes and under an Interlocal Agreement the Industrial Development Board would then agree to contribute that to the Authority for debt service. Mr. Hill asked if the projected term of the TIF is 20 or 30 years. Mr. Mamantov explained that Knoxville's Community Development Corporation (KCDC) TIF can go up to 30 and that any leftover would be applied to help pay off the infrastructure.
4. Mrs. Thompson requested clarification that the Authority is voting on the resolution to approve the documents presented today but that they would not sign until they have had a chance to review the final documents in totality. Mr. Mamantov replied in the affirmative, and stated that the members of the Board will receive redlined versions of the agreements with all changes and be kept informed of any substantive changes. Mr. Schmid also commented that the process is an incremental one. He explained that the vote on the agreements today will move the process further and the documents to which Mr. Mamantov is referring will coalesce the process.
 - a. Mr. Hill expressed that there is risk involved with the project but that the Authority is working to minimize the risk.
 - b. Mr. Mamantov explained that the Authority will focus on the Private Development Agreement and the Culvert Agreement during its next meeting on February 22nd.
 - c. Mr. Hagood asked if the Authority would still have the ability to address or make changes to the agreements after the vote today. Mr. Mamantov replied in the affirmative. Mr. Schmid replied that the resolution provides for the adjustment of issues that do not rise to the level of material changes. Mrs. Thompson asked if the Authority would have the opportunity to review the Private Development Agreement before it is signed. Mr. Schmid stated that the Authority will not be asked to sign the documents until the members have had the opportunity to see them in totality.

Review of the Infrastructure Agreement

Mr. Mamantov presented the Public Infrastructure Agreement to the Authority and explained that the agreement assures the developer that the work that needs to be completed around the stadium will be done and allows the City to allocate funds to that end. The City would contribute the fund to the Authority which would, in turn, hire the development team to complete the work. This process is the most cost-effective because the developer would already have the necessary equipment on site. The agreement allows the City to choose whichever method is most cost-efficient for each specific improvement.

Ms. Welch stated that the improvements include the street and streetscapes, new public plazas, reconfiguration of Patton to provide a transportation hub that could also be closed to expand the plaza when necessary as well as other improvements. The City is committing \$14 million over two years to the project.

Resolution Vote

Mr. Hill moved that the Authority approve the resolution to approve the Lease, Development, and Infrastructure Agreements in substantially the form that they have been delivered to the Authority. Mr. Hagood seconded the motion. The motion carried with a unanimous voice vote of the Authority.

Mrs. Tillman expressed the importance of noting that, although they have great confidence in the documents as presented, the Authority retains the right to adjust the agreements and to raise any issues they may have. Mr. Mamantov stated that the force majeure, internship program agreement, insurance provisions, and other items that continue to evolve will be communicated to the Authority and requested that the Authority call to his attention any other items that need to be addressed.

Financing

Mr. Mamantov asked that Joe Ayres of Cumberland Securities, the co-financial advisor for the Authority, discuss the status of the project's financing.

Mr. Ayres explained the process of a negotiated sale and explained that the option was chosen because the Authority is a new entity. He stated that this is the Authority's first time entering the bond market. It is a fairly complicated structure with taxable bonds, tax-exempt bonds, different sources of revenue to support those bonds and the market has become volatile. Working with the City and the County, Mr. Ayres went back and reviewed which underwriters have been supporting the County and City bond issues over the last number of years and identified eight large super-regional investment or commercial banks. Mr. Bass authorized Mr. Ayres to present a request for proposal (RFP) to those 8 as well as approximately 11 DBE firms. The RFP went out last week and questions are currently being fielded. Responses are due by February 16th. Underwriters will also be asked for suggestions on timing and structure. Once those responses have been received, recommendations will be brought to the Authority.

Mr. Hagood asked about the status of the bond market compared to a few months ago. Mr. Ayres responded that interest rates are higher by one-half percent since the summer of 2021. He explained that there is an almost 100% probability that rates will rise in March. There is a material probability that it will rise by 50 basis points instead of 25. He stated that for the last 30 - 45 days, 10-year Treasury rates have risen from about 1.5% to 1.9% approaching 2% this morning. He explained that the short end of the curve, which is the lowest cost money and can be paid off more quickly, is what has been the most adversely affected. The long end of the curve remains very attractive on a historical basis. He explained that the short end of the curve is one year or two-year periods, the long end of the curve will be 20 or 30 years. The Treasury will sell 10-year bonds tomorrow and 30-year bonds on Thursday which will give a better indication of the status of the market.

Mr. Mamantov explained that the documents for the bond issue will be substantial and will include an indenture. The indenture is the document under which bonds are issued. Mr. Mamantov asked how long the rating agency process might take. Mr. Ayres explained that once a packet is submitted to the rating agency, the turnaround time is typically between two to four weeks. The transaction is supported by the City and the County which are both AAA-rated. Cumberland Securities believes that the Authority will be rated one notch below the City and County as an AA which will be attractive to investors nationwide. Mr. Ayres stated that he anticipates being in the market in 6-8 weeks and closing in April.

Mr. Hagood asked if higher rates are beneficial to the Authority. Mr. Ayres replied that higher rates will cause the Authority to have to spend more to borrow money. The financial advisors will monitor running cash flow based on the budget to build the stadium and revenues to pay back the bonds. Mr. Mamantov pointed out that the amount of increase is relatively modest. Mr. Ayres agreed and stated that 10-year treasury bonds remain below 2%.

Mrs. Thompson asked if the Authority would be able to re-enter the market to get a better rate if the need arises. Mr. Ayres replied in the affirmative. He said that an optional provision feature will be built into both issues that will allow the Authority to re-enter the market in 8 to 10 years to refinance. A tax-exempt optional call feature can be used in that taxable market but will cost more because the Authority would need to pay for the present bank to provide reinvestment of the money. Mr. Mamantov explained that the \$1 million rent payments will have a taxable series of bonds attached to them.

Adjournment

Mrs. Thompson reminded the Authority that the next meeting will be on February 22nd at 9:00 AM in the Public Works Community Room. She then adjourned the meeting at 10:21 AM.

