

State of California

California Exposition & State Fair  
1600 Exposition Boulevard  
Sacramento, CA 95815

## MEMORANDUM

**Date:** October 26, 2018  
**To:** Board of Directors  
**Via:** Rick K. Pickering, Chief Executive Officer  
**From:** Samantha Brown, Administrative Deputy General Manager  
**Subject:** **Consideration of Request by Spectra to Amend the Multiuse Sports Facility Agreement to allow additional Depreciation**

### **BACKGROUND**

Cal Expo entered into an Agreement with Spectra on March 13, 2014, to construct and operate a Multiuse Sports Facility at Cal Expo for a period of nine years, ending December 31, 2022. In 2015, Cal Expo amended the Agreement to allow Spectra to expand the leasehold footprint of the original area in order to construct additional seating on the North end of the field. In 2017 and again in 2018, Cal Expo amended the Agreement at Spectra's request to provide Sacramento Republic and concert Promoters with more favorable financial terms when they conduct sporting events and concerts on the field during the annual California State Fair. Spectra is respectfully requesting that the Agreement be amended to allow an additional \$500,000 to be depreciated at the facility. See attached letter from Charlie Neary dated October 30, 2018.

### **CURRENT STATUS**

The Agreement outlines three "Tiered-thresholds" in which the amount paid to Cal Expo increases, tied to the financial success of the Facility. These thresholds are:

**Tier 1:** At start up, Cal Expo receives 20% and Spectra 80%;

**Tier 2:** When annual net earnings plus depreciation hits \$3 million, Cal Expo receives 40% and Spectra 60%; and

**Tier 3:** When annual net earnings plus depreciation hits \$3.75 million, Cal Expo receives 50% and Spectra 50%.

Currently the Facility is at Tier 2, and Spectra estimates that Tier 3 may be reached sometime in 2019.

Section 3 of the Agreement limits Cal Expo's participation in depreciation to \$3,000,000. While Spectra may invest additional capital into the facility, such investments are the

sole financial responsibility of Spectra and may not be considered a part of the depreciation schedule, unless approved by Cal Expo in advance.

Spectra's attached letter states that Sac Republic's initial 5-year term concludes at the end of 2018, and it has four 1-year renewals. Spectra's letter further states that if certain enhancements are made to the facility, Sac Republic would agree to a single four-year extension through yearend 2022, (unless a MLS stadium is operational in Sacramento in advance of that date.) Note that Cal Expo is not a party to the agreement between Spectra and Sacramento Republic.

Spectra is proposing to invest \$500,000 into the facility in the following items:

- \$360,000 to address field drainage and leveling; install new grass sod; install synthetic turf in the players' bench areas; and
- \$140,000 to enhance general amenities including, player locker rooms, wayfinding signage, VIP seats, etc.

Spectra has also indicated that Sac Republic is committed to investing \$50,000 toward additional desired improvements, above Spectra's \$500,000 commitment.

Spectra is proposing that Cal Expo become a partner in the \$500,000, by allowing this amount to be depreciated via the Multiuse Sports Field Agreement. Since Spectra has already exceeded the initial 9-year straight-line depreciation schedule by \$204,324, Spectra is proposing to be allowed to add an additional \$295,676 in depreciation to the Field Facility spread over the next four years (or \$73,919/year.)

In recognition that Cal Expo would be allowing the total depreciation amount of \$3,000,000 to be raised to \$3,500,000, Spectra is also agreeing to implement the Tier 3 50/50 Split of year-end Net Profits beginning January 1, 2019. Although Tier 3 should be reached sometime in 2019, it's advantageous for Cal Expo to accept Spectra's offer to use January 1, 2019 as the effective date to implement Tier 3.

### **RECOMMENDATION**

It is respectfully recommended that the Board review and approve Spectra's request to Amend the Multiuse Sports Facility Agreement to include an additional \$500,000 in depreciation above the original \$3,000,000 cap (\$295,676 over the next four years, as Spectra has already depreciated an additional \$204,324 ahead of the straight-line depreciation schedule.) The Amendment will also include making January 1, 2019 the effective date of the Tier 3, 50/50 split of Net Profits.



**SPECTRA**  
BY COMCAST SPECTACOR

**CHARLIE NEARY**

Division Senior Vice President, West  
Venue Management and Food Services & Hospitality

4501 Pleasanton Ave., Pleasanton, CA 94566

O: 925.426.5128 M: 925.683.1400 Charlie\_Neary@comcastspectacor.com

October 30, 2018

Mr. Rick Pickering  
California State Fair & Exposition Center  
1600 Exposition Way  
Sacramento, C A 95815

Dear Rick,

Pursuant to your request, I'm writing this letter to formalize our request made a couple of weeks ago when we met at your offices regarding the investment that Spectra is proposing to make for necessary improvements to Papa Murphy Park. As we discussed, Spectra has an agreement with the Sacramento Republic to host professional soccer and other sporting events at Papa Murphy Park that ends on December 31, 2018. The agreement also provides the Republic with four one-year options to extend the agreement at their discretion.

Spectra and the Sacramento Republic have been in conversations over the past couple of months to secure the Republic's commitment to host their professional soccer games at Papa Murphy Park for the entire four-year term as opposed to one-year terms, in exchange for necessary stadium improvements. The most significant improvement would be the investment into a new grass field including upgrades to the drainage system, laser grading, installation of new sod, and the installation of synthetic turf in team bench areas. Attached please find the quote for this project. In addition to the \$360,000 for the new playing field, we are proposing to spend up to another \$140,000 on other stadium improvements including locker room upgrades, wayfinding signage, better seating solutions for VIP seats, VIP upgrades and the potential of group sales areas in the grandstands. As part of our negotiations with the Republic, they have agreed to spend an additional \$50,000 for other stadium improvements. The total investment therefore would be \$550,000, of which Spectra would be fronting \$500,000.

I think it's important to point out that our agreement with the Republic obligates Spectra to "maintain the Licensed Facilities in a manner so as to cause them to remain in a condition comparable in all material respects to that of other professional sports facilities of similar size, design, age, ordinary wear and tear expected". The wear and tear on the field due to the number of concerts that we host in addition to soccer games and other events has resulted in a playing surface that the team and the league have not been satisfied with. As a result, and not knowing whether Spectra was willing to invest into a new field, the Sacramento Republic entered into discussions with other competing facilities in the area, namely Sacramento City College and Sacramento State University about hosting their games at those stadiums. While neither of those facilities offer a "soccer friendly" experience, they both offer a better playing surface. During this same period, we started discussions with the Republic about how to move past the field issues and create a "win-win" solution. Obviously, it would not be prudent to consider making the investment into the stadium without a longer-term commitment from the team, and now the Republic is willing to make that a reality.

During the review process to determine if a longer-term lease agreement with the Sacramento Republic was beneficial to both Spectra and Cal Expo, we have been working with Cal Expo staff to review past performance

at Papa Murphy Park. During that process it was determined that the depreciation schedule for the original capital spent needs to be adjusted to coincide with the straight-line method outlined in the agreement between Cal Expo and Spectra. It appears the amount over-depreciated on the Sports Funds P & L from 2014 through September 2018 appears to be \$204,324.

Spectra is requesting that the amount of depreciation expense which is more than the straight-line amortization schedule (\$204,324) be deducted from the new \$500,000 investment for purposes of creating a new depreciation schedule from January 2019 through December 2022. This would leave \$295,676 (\$500,000 - \$204,324) of additional capital to be depreciated over a four-year period. Spectra is requesting that \$73,919 per year ( $295,676/4$  years) be an allowable operating expense to the soccer stadium P & L starting in January 2019. We recognize that this is a sizeable expense to absorb each year, but it is more than offset by the profits generated from Sacramento Republic soccer games. The profits generated from these events represents a significant portion of our annual profits which are shared by Cal Expo and Spectra.

Cal Expo transitioned from receiving 20% of stadium profits to 40% this year and will transition to 50% of profits next January. As a 50% "partner" in the success of the stadium's operations, it seems prudent for both Cal Expo and Spectra to make the investment into the stadium upgrades, which will ensure that the Republic stay at Papa Murphy Park for the next four years and provide continued and consistent profits from Republic games that far exceed the expense associated with the investment.

Sincerely,

*Charlie Neary*

Charlie Neary  
Senior Vice President