The Arena is Compliant with I-91

$14 Million ÷ $200 Million = 7.0% > 2.7% = I-91 Compliance

In secured annual revenues | City/County Investment | Annual return | 30 Yr. Treasury Yield | Both the legal definition and intent

- **This simple return analysis uses the City Central Staff's assumptions:**
  - **Excludes the value of the land and all incremental taxes**
  - While the proposal may be complicated, the basic math is not
  - Even if we add a 10% substitution effect ($1 million), the annual return would still be 6.5%

- **7.0% annual return is <u>without question</u> I-91 compliant**
  - **We have adhered to the strict letter of the law/initiative here**
  - I-91 does not distinguish between taxes and rent; both are "cash" that flow to the City/County's General Fund
  - Both Arena taxes and rent/incremental rent are "<u>secured</u>" revenues as required by I-91
  - Even without prescribing any value to the land or Arena, the return significantly exceeds the 30 year Treasury (2.7%)
  - **This return also exceeds the City Central Staff's fair value assumption of a 1% premium to the City's borrowing cost/cost of capital (5.5% + 1.0% = 6.5%)**
  - City Staff's conclusion that the proposal did not meet the fair value return threshold was based on the factual error of referencing debt service cost (which included principal repayment) instead of the City/County's cost of capital (current yield on its 30 Year bonds).

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- **City Central Staff made factual error in calculating required return**
  - Finance 101 - do not comingle “financing options” with project returns. Consider City/County investment “cash” instead of “debt” to calculate the “cash-on-cash” return
  - **Debt service payment IS NOT the City/County’s cost of capital as it includes principal repayment. Interest is return <u>on</u> investment, principal payment is return <u>of</u> investment**
  - City/County’s cost of capital is the current yield on its 30 year bonds (assumed to be 5.5% by the City/County to be conservative, but is currently 4.2-4.5%), not its debt service payment rate of 7.0%.
  - This 5.5% rate would equate to an $11 million required return on the City/County’s $200 million investment, not the $14 million debt service payment
  - Adding a 1% risk “premium” would bring the required “fair value” rate to 6.5%, ($13 million), which is still below the 7.0% ($14 million) guaranteed return stream of rent and taxes

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- **This error resulted in the dubious conclusion that the return is not adequate**
  - Page 19 of the City Central Staff presentation shows a chart that depicts the fair value return should be 1% higher than the debt service cost ($14 million) instead of the City/Count's cost of capital (5.5%, or $11 million)
  - Page 20 States "Arena lease payments do not provide a return comparable to what a commercial investor would earn assuming a 1% risk premium"
  - Concept is right but conclusion is flawed because it uses debt service instead of cost of capital
  - The current rate of return (i.e. the "cap rate") for commercial real estate with long term leases and high quality tenants is approximately 4.0-6.0%, not 8% as the presentation's analysis implied
  - **The 4.0-6.0% "Cap Rate" on comparable commercial real estate is lower than the 7.0% rate the City/County will earn on the Arena**

- **Most accurate way to determine the Arena return is to calculate the IRR**
  - IRR (Internal rate of return) analysis takes into account precise flow of City/County funds
  - **Assuming zero land value and zero incremental taxes the IRR is still 6.6%**
  - Again higher than both the "fair value" return (6.5%) or the 30 Tr. Yield ($2.7%)
  - **Including just the raw land value at the end of the lease brings the IRR to over 7.5%**