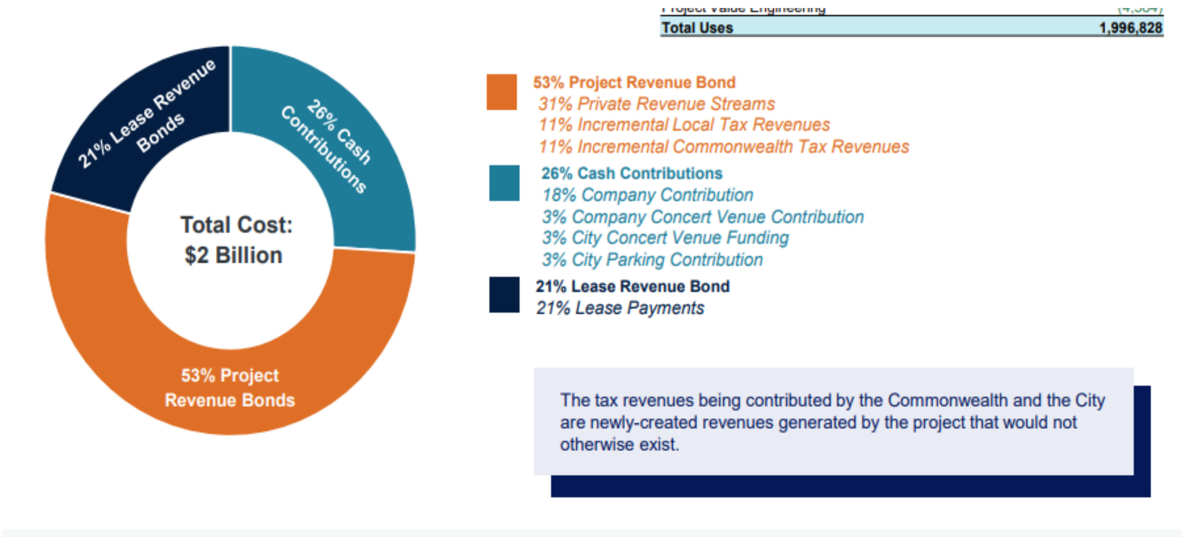
<u>Response to DC's Analysis of Virginia Arena Deal Documents</u>

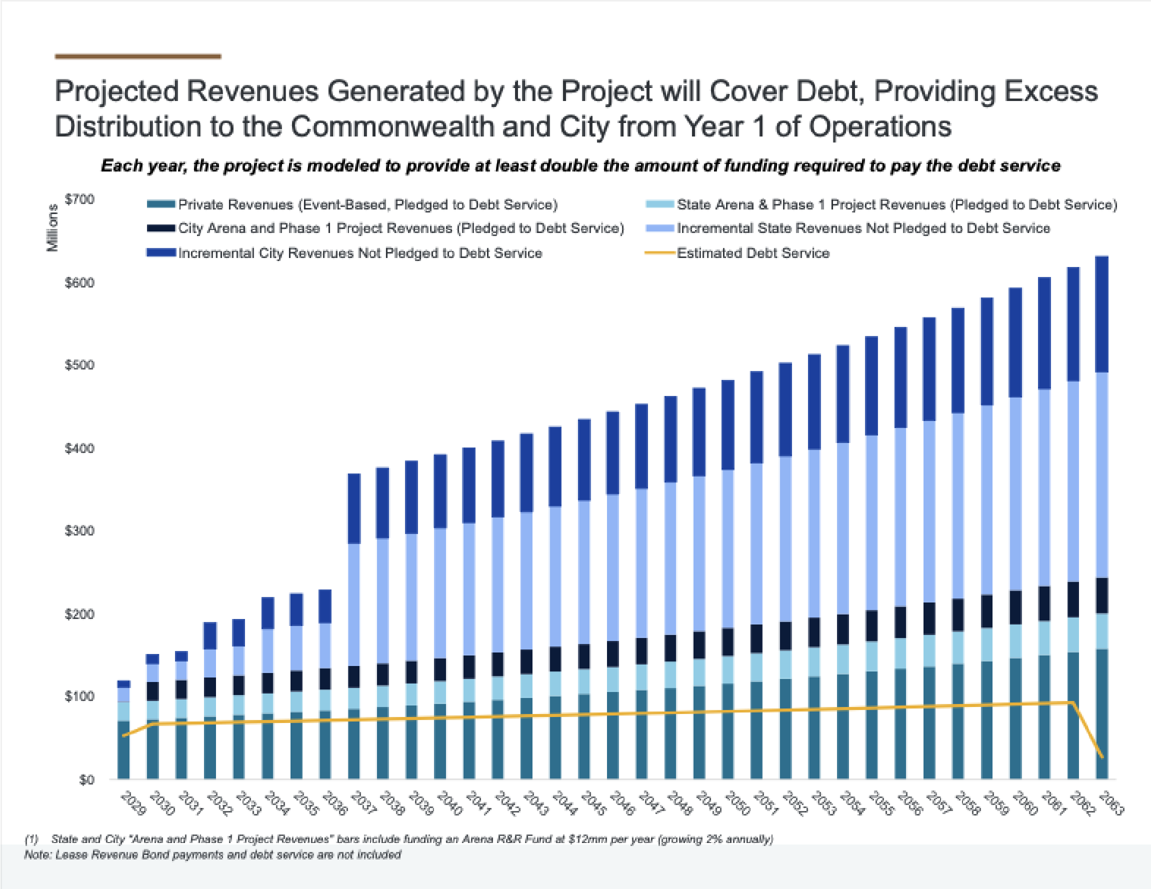
BLUF: The document relies on numerous assumptions that are not accurate and selectively presents information, leading to an extremely misleading narrative.

Overview: The erroneous narrative of taxpayer contribution overlooks MSE's significant contributions, notably its rent payments that support the Lease Revenue Bonds, <u>demonstrating that the cost is not borne by the public.</u>

- The DC assertion that the total cost to taxpayer is $5 billion is way off base. Lease Revenue Bonds are paid entirely with MSE's rent payments (estimated at more than $1 billion over the term). Project revenue bonds are paid entirely with revenues that wouldn't otherwise exist.
- MSE is financing $400 million for construction, which has no financial implications for the public.
- Teams will sign 35 year non-relocation agreements and will have to pay off any debt if they leave
- Commonwealth investment here represents 11% of total funding and that's only from new incremental taxes, most of which would not exist but for this project. Majority of funding is from private/company sources and arena direct project revenues like parking/naming rights, etc.



- The taxes designated for repaying the bonds are limited to the Entertainment District, not affecting the broader Commonwealth or Alexandria. These bonds will be repaid with funds from those utilizing the facilities, including fans from other states. There are no new taxes on anyone or anything outside the Entertainment District.
- The Commonwealth projects a $1.7 billion direct cash benefit just from the Arena/Phase 1 of the project, net of debt service, and another $2.9 billion from Phases 2/3 which will not be pledged to any debt and all accretive, similar benefits for the City of Alexandria



- The author was selective in portraying DC's financial model for funding Capital One Arena (COA) renovations.
    - DC's proposed $500 million contribution would also be financed with a bond.
    - This analysis lacks the total investment by DC in the COA, including debt service and city services over the past 20+ years, which could be quantified but are not.
    - Worth noting DC's investment in COA has been returned in multiples – amounting to over $800m over the last 26 years which is presumably the reason the city wants the teams to remain.

Costs:

- **Bonds:** The report also erroneously states that the bond proceeds finance the performance venue. The performance venue is a joint construction and operation between the City of Alexandria and MSE and is not funded by the bonds.
- **Maintenance:** The $12 million allocated to the CapEx and Maintenance Fund is not solely for routine maintenance: $7 million is for maintenance, and $5 million is for CapEx. <u>These funds are created through tax revenues in the entertainment district and are not derived from additional appropriations or debt.</u>
    - The Authority does not assume all risk for upkeep of facilities, MSE will be responsible for maintenance/O&M outside of the Authority's O&M fund

- Comparing the costs of annual maintenance for new facilities with the 26-year-old Capital One Arena is impractical. The combination of total CapEx and Maintenance Fund for lifetime improvements and maintenance of a facility is misleading.
  - These costs are covered by the same revenues servicing the bonds, which would not exist without the project. The $12 billion economic impact figure includes the maintenance and CapEx funding.
  - The fund is financed only if there are excess revenues beyond the debt service on the project revenue bonds. There is no requirement to allocate these funds if excess revenues are not generated.
  - The Authority is not obligated to allocate funds for repairs to other facilities (e.g., office space).

- **Cost overruns:** Comparisons to the recent football stadium deals are irrelevant and speculative.
  - The project contemplates a fixed-cost design-build contract that would drive design to the allocated budget and would require redesign to budget if for any scopes of work that would be forecasted to exceed their respective budgets. This model has been utilized to deliver a number of high value projects on time and on budget.
- Pure conjecture regarding the transportation infrastructure funding and Alexandria contribution being "several times higher" because of borrowing and there is no backing to support their numbers anyway.

Taxes:

- **Ticket Taxes:** The skepticism about the revenue potential of ticket taxes is unfounded and inaccurate. Additionally:
  - The analysis excludes potential revenue/taxes from the Performance Venue.
  - Modern fans seek tailored game day experiences and are willing to pay for premium offerings, which the new arena will accommodate through a broader range of premium options.
- **Income Taxes:**
  - Monumental's employees constitute approximately 700 of the nearly 30,000 jobs projected, with their residency breakdown applied to our analysis without assuming any relocation to VA.
  - Out-of-state performers and athletes will contribute to VA income taxes, noting that market comparisons between Pittsburgh and DC are not directly transferable. It's unfortunate that DC cannot collect these taxes, unlike most other states.
- **Parking Revenue:**
  - The estimate *does* account for the cost of operating or maintaining a garage.
- **Hotel Taxes**: The comparisons used in the DC memo are flawed as it is using a Covid impacted 2021 analysis and further is not applicable because the arena complex will drive over three million patrons per year to the site, generating significant tourism, sports, entertainment, and innovation traffic to the City to support hotel development adjacent to a brand new, world class arena.

Transportation: See transportation analysis.

Additional Critical Information:

- Commonwealth (sports authority) will be buying prime real estate in the immediate DC metro area which will be a great long term investment with significant appreciation
- Project revenue bond revenues are only from Arena and Phase 1. Phase 2/3 revenues (over 6 million square feet of stimulated development) will be entirely accretive to Commonwealth and City.
- This financial structure has been carefully crafted and negotiated over the previous six months. JP Morgan's global sports investment bank works on arena and stadium deals throughout the country and globe. The structure has been reviewed by the Commonwealth's Treasurer, Debt Capacity Advisory Committee, and independent financial advisor. And will be brought to rating agencies over next several months, who will validate this unique and prudently structured public private partnership.