Request for City Council Committee Action
From the Department of Community Planning & Economic Development

Date: April 5, 2005

To: Council Member Lisa Goodman, Community Development Cmte.
Council Member Barbara Johnson, Ways & Means/Budget Cmte.

Prepared by: John Harrington, Project Coordinator, Phone 612-673-5018
Presenter in Committee: Lee Sheehy, CPED Director

Approved by: Chuck Lutz, Deputy CPED Director CL

Subject: Proposed Term Sheet for the Operation, Booking and Disposition of the Orpheum, State, and Pantages Theatres

RECOMMENDATION:

1. Authorize staff to negotiate and execute a Lease for the Orpheum, State, and Pantages Theatres with Hennepin Theatre Trust (HTT), and the Operation and Booking by HTT, Historic Theatre Group (HTG), Ltd, and Clear Channel Entertainment (CCE) and related documents consistent with the proposed Term Sheet.

Previous Directives:

Pertaining to the Theatre Study Committee and RFP

- September 26, 2003, the City Council appointed a Theatre Study Committee to develop principles for consideration by the Council that would guide decision-making regarding the long-term management and operation of the theatres, and directed the Committee to report back to the Council by May 1, 2004, with strategies for achieving those goals.
- May 14, 2004, the City Council approved the Theatre Study Committee report setting out the goals for the theatres and directed CPED staff to prepare and issue a Request for Proposals for the management and booking of the theatres consistent with those goals. The City Council also appointed the Chair of the Minneapolis Arts Commission to the Theatre Study Committee.
- November 19, 2004 the City Council approved, with amendments, the Theatre Study Committee recommendation to award exclusive negotiating rights for a period of 120 days to the team comprised of Hennepin Theatre Trust, Historic Theatre Group, Ltd, and Clear Channel Entertainment for the operation, booking, and disposition of the Orpheum, State, and Pantages Theatres.

Financial Impact (Check those that apply)

_X_ No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
___ Action requires an appropriation increase to the Capital Budget
___ Action requires an appropriation increase to the Operating Budget
___ Action provides increased revenue for appropriation increase
___ Action requires use of contingency or reserves
___ Other financial impact (Explain):
___Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (Summarize below)

Ward: Wards 5 and 7

Neighborhood Notification: N/A

City Goals: Create an environment that maximizes economic development opportunities within Minneapolis by focusing on the city's physical and human assets. Preserve and enhance our natural and historic environment and promote a clean, sustainable Minneapolis.

Comprehensive Plan: N/A

Zoning Code: N/A

Living Wage/Job Linkage: N/A

Executive Summary

In September 2003, the City Council appointed a Theater Study Committee to develop goals and criteria to guide the long-term management and booking of the three City-owned theaters – the State, Orpheum and Pantages. The Committee recommended several goals and criteria which the City Council adopted (Attachment C). These goals were also contained in an RFP for the management of the theaters that was issued in August 2004.

On November 19, 2004, the City Council awarded exclusive development rights for the Hennepin Avenue theaters for 120 days to a team composed on Hennepin Theater Trust (HTT), Hennepin Theater Group (HTG) and Clear Channel Entertainment (CCE) (collectively, the proposers) to negotiate a term sheet.

This report transmits the Term Sheet, (Attachment A). It identifies key points in the Term Sheet and compares them to the existing Management Agreement, Master Use Agreement and Professional Management Services Agreement.

The key points of the Term Sheet, which will, with City Council approval, be incorporated into a Lease, are:

- The theaters would be leased to the HTT.
- The tax-exempt bonds would be refinanced with taxable bonds to allow significant private investment in the Theatres in a way which the tax-exempt bonds do not. The proposers are required to make annual lease payments to the City equal to the debt service on the bonds.
- CCE will provide a Guarantee and Letters of Credit to secure the Lease.
- The proposers will be responsible for capital improvements to the theaters including a $1.5 million dollar investment in improvements in the first two years of the lease.
- The proposers must meet certain performance standards; not meeting them will result in penalties or default.
- There is a $10 million endowment requirement.
- Upon satisfaction of all the terms of the Lease, the theaters will be transferred to HTT, the non-profit organization, after the taxable bonds are retired.

If this report and the attached Term Sheet are approved, City staff will negotiate a Lease for the theatres. When the Lease is ready for execution, Business Finance staff will submit a report requesting preliminary and final approval to proceed with the sale of the taxable bonds.

There are several key reasons why the proposed deal structure in the Term Sheet improves the City's position with respect to the theaters:

- It meets or exceeds all of the City Council approved goals and criteria for the theaters.
- It means that the City will be dealing with a team that has a proven track record in booking Broadway and other first class performances and in operations of historic theaters both locally and nationally.
- The team has demonstrated the ability to be a successful competitor nationally for first class performances, and the financial structure outlined in the Term Sheet incents them to perform.
- It eliminates the current City expenses for the theaters that have averaged $300,000 for 2003 and 2004.
- It will require the non-profit to create an endowment of at least $10 million over the term of the lease.
- The team has a track record of working effectively with community partners and will be vigorously reaching out to the community over the term of the Lease.
- The corporate guarantee and Letters of Credit substantially mitigate the City's risk for bond repayment.

Background/Supporting Information
On September 26, 2003, the City Council appointed a Theatre Study Committee to develop principles for guiding long-term management and booking of the three City-owned theatres: the Historic State Theatre, the Historic Orpheum Theatre, and the

Pantages Theatre. The Study Committee was comprised of City Council Members Lisa Goodman, Chair of the Community Development Committee, Scott Benson, Vice Chair of the Community Development Committee, Barbara Johnson, Chair of the Ways & Means/Budget Committee, Natalie Johnson Lee, 5th Ward, City Finance Director Patrick Born, CPED Director Lee Sheehy, Erik Takeshita, Senior Policy Aide to the Mayor, and Phil Handy, CPED Senior Project Coordinator (replaced upon his retirement by Tom Daniel, now the Manager of CPED's Business Development division).

The Study Committee was charged with reporting back to the City Council by May 1, 2004 with strategies for achieving the recommended goals and criteria, which could include the issuance of a Request for Proposals (RFP). The Council also directed that a City Council Study Caucus be held regarding the current status of the theatres, including an overview of all agreements associated with the current theatre ownership, management, and operations. The Study Caucus was held on November 14, 2003.

The Study Committee met six times from November 2003 through April 2004, covering all aspects of theatre operations, financial status and oversight, booking roles and procedures, and the business aspects of touring Broadway shows. The Study Committee's report and recommendations, adopted by the City Council on May 14, 2004, set goals and criteria for the theaters and directed CPED staff to issue and RFP for management and booking. The goals and criteria include supporting and maximizing the positive economic impact of the theatres on Minneapolis; preserving the theatres as a long-term legacy for future generations; ensuring accountability in the operation of the theatres while minimizing city involvement in day to day operations; supporting continued development of the Hennepin Theatre District; and supporting and encouraging private sector fundraising to meet existing debt and the capital improvements the theatres will need. The City issued the RFP on August 12, 2004.

Three responses were received on October 15, 2004: (1) from organizations presently managing the theatres and presenting performances (HTT, HTG and CCE); (2) the Twin Cities Theatre Alliance (Ordway Center); (3) Theatre Dreams. On November 19, 2004, the City Council awarded "exclusive negotiating rights for a period of 120 days to the team comprised of Hennepin Theatre Trust, Historic Theatre Group, Ltd, and Clear Channel Entertainment for the operation, booking and disposition of the Orpheum, State and Pantages Theatres." Negotiations have now concluded. Staff is recommending the accompanying Term Sheet, which in its entirety, is Attachment A. For comparison, Attachment B is the Term Sheet contained in the proposal submitted by HTT, HTG and CCE.

In addition to the approved goals and objectives, staff approached negotiations with three specific outcomes in mind:(1) to improve the City's current financial position with respect to the theatres; (2) to place the three theatres in competent management hands while enhancing their useful life by preventing disinvestment; (3) to ensure the theatres' long-term role as an economic development engine for downtown and the City.

Key Elements of the Term Sheet

City's Financial Position

Debt Service; Guarantees for Bonds

Current Conditions:
The City is currently responsible for debt service on $22.25 million in tax-exempt bonds. The primary revenue source to cover debt service payments is a Restoration Fee collected on each ticket sold. If a deficiency occurs between the required debt service payment and the collected Restoration Fees, the City is responsible for making up any shortfall to prevent default on the bonds. The City, as owner and tenant of the theatres is the ultimate provider of security for the tax exempt bonds.

Recommended Term Sheet Provision:
Following execution of the Lease, the City will issue taxable bonds through the Common Bond Fund and HTT will make the Lease payments equal to the debt service payments on the taxable bonds. The City remains the ultimate provider of security for the taxable bonds. However, the City's position is supported by the corporate guarantee for all payments due under the Lease, and further assured by the Letters of Credit of approximately $1.6 million, $10.5 million and $750,000. This collectively represents a significant improvement in the City's financial position (Attachment A, Section 5).

Asset Management and Control

Capital Improvements

Current Conditions:
The City, as owner and tenant of the theatres is responsible for financing capital improvements. Although there are several potential sources of funds for capital improvements, the most likely primary revenue source for such improvements will continue to be the City's share of profits from the Broadway Season. This guarantees the City a minimum annual contribution of $75,000 from the presenter toward capital repairs. It is reasonable to anticipate that the need for capital repairs and maintenance may well grow more rapidly than the currently available revenue stream(s).

In addition to the growing capital requirements, the City has experienced negative operating revenue flows of approximately $300,000 per year over the past two years (associated predominantly with insurance and energy expenses). For the current year (2005), the Restoration fees increase is expected to result in a revenue increase of $400,000, and a potential positive operating revenue flow of $25,000.

Recommended Term Sheet Provision:
The Term Sheet includes two provisions relative to capital improvements: (1) an identified list of deferred capital improvements of approximately $1.5 million will be funded by the proposers and completed within two Broadway Seasons (two years) after execution of the Lease (Attachment A, Section 8);(2) an ongoing capital improvement program, funded by the proposers, based on regularly scheduled independent evaluations conducted by a mutually-acceptable provider (Attachment A, Section 8) and backed by a $750,000 Letter of Credit.

The requirement that the providers are responsible for capital improvements during the period of the Lease represents a significant improvement in the City's financial position because it reduces the City's obligation to provide an ongoing source of funds for capital repairs and improvements.

Management of the Theaters; Endowment and Capacity Building

Current Conditions:

In general, the City is the property owner and landlord, HTG acts as the City's property manager and HTT is responsible for presenting theatrical performances including a Broadway Season. The City, as owner of the theatres, has entered into a Management Agreement with HTG and a Master Use Agreement with HTT to present a Subscription Series of Broadway performances. HTT in turn has entered into a Professional Management Services Agreement with PACE Theatrical (now controlled by Clear Channel Entertainment) to provide services in connection with the booking and production of live Broadway theatre.

Recommended Term Sheet Provision:

The Term Sheet proposes that the City retain ownership for the theatres until the taxable bonds are paid off (approximately 30 years) (Attachment A, Section 7), that the theatres be leased to HTT (Attachment A, Section 7), that HTT engage in organizational development and financial capacity enhancement activities during the term of the Lease (Attachment A, Section 8), and that, if certain performance standards are met during that time, HTT has an option to acquire fee ownership for the nominal sum of $1.00 (Attachment A, Section 12). In the event that HTT is in default or decides to dissolve, the Term Sheet has provisions for the selection of a substitute non-profit entity as tenant.

One of the most significant organizational capacity standards to be met precedent to HTT's eligibility to acquire the theatres is creation of an endowment of at least $5 million by year 17 and an additional $5 million by the end of year 28. The Lease will also require HTT to achieve, by the end of year 12 of the Lease term, three consecutive years between years 8 and 12 of the Lease term with operating reserves equal to or greater than two months of its annual management and general operating budget. By the end of year 20, HTT will be required to have three consecutive years with operating reserves equal to or greater than four months of its annual management and general operating budget.

Control

<u>Current Conditions:</u>
As stated in the Management Agreement, the Manager can only assign its interests with "the written consent of Owner [City], such consent to be granted by Owner in its sole discretion."

<u>Recommended Term Sheet Provision:</u>
CCE, HTG and HTT cannot change control during the term of the Lease without the City's permission. Any change of control, as defined in the Term Sheet, without the City's permission, will be an event of Default for HTT, and HTG. Any change of control for CCE will trigger a right in the City to collect approximately $12.85 million in Letters of Credit.

The Term Sheet does allow transfer of control among affiliates of HTG and CCE as defined in the agreement.

Finally, because HTT, as a non-profit corporation, is governed by a Board of Trustees, not by stockholders, it is not susceptible to purchase by another entity. However, since the Board of Trustees is responsible for the appointment of its members in the case of their replacement or expansion, there is a provision in the Term Sheet governing change in Board voting control of HTT (Attachment A, Section 8). HTT's continuing lead role and capacity-building is directly related to its anticipated eventual role replacing the City as owner and operator of the theatres.

Economic Development

Theatre Use

<u>Current Conditions:</u>
There are numerous provisions in the current Master Use Agreement, the Management Agreement and related documents regulating the potential activities that may occur in the venues.

<u>Recommended Term Sheet Provision:</u>
The Term Sheet specifies that the theatres will be operated, managed and used as first class performing arts facilities, that uses other than live performances are ancillary and that the venues shall not be used for any sexually oriented or similar business.

Performance Standards

<u>Current Conditions:</u>
In the Master Use Agreement, the non-profit presenter is obligated to present at least 80 individual performances (not including dress rehearsals or non-ticket previews) during each Season of "Broadway Theatre" through a "Broadway Subscription Series." HTT accepted assignment of the MUA on October 10, 2002. For the period of record from 1998 through 2002, substantially more than 80 performances/events were presented (minimum 112 in 2000, maximum 177 in 2001, five-year average 141).

Recommended Term Sheet Provision:
The City will require that the number of events and patrons, including paying patrons, cannot fall below certain thresholds.

The Term Sheet proposes three levels of performance standards (Attachment A, Section 8):

- Aspirational goals, which are consistent with the number of events and attendance in the responders' proposal.
- Penalty goals, which, if not obtained, would trigger certain financial penalties as noted in the Term Sheet and in the table below
- Default goals, which if not obtained, would trigger the default provisions of the Lease.

Goal Category	Number of Total Events	Number of Broadway/First Class Events	Number of Total Patrons	Number of Patrons with more than Nominal Ticket Price	Penalty for Failure to Achieve Goals
Aspirational Goals	400 Events (rolling 3-year average)	140 Events (17.5 weeks) (rolling 3-year average)	500,000 Patrons (rolling 3-year average)	400,000 Patrons (rolling 3-year average)	• Commercially reasonable efforts only- no Financial or Default Penalties
Penalty Goals	350 Events (rolling 3-year average)	100 Events (12.5 weeks) (rolling 3-year average)	375,000 Patrons (rolling 3-year average)	325,000 Patrons (rolling 3-year average)	• $1,000 for each event under 350 • $1,000 for every 1,000 paid under 325,000 • No Default Penalties
Default Requirements	180 Events (rolling 4-year average)	60 Events (7.5 weeks) (rolling 4-year average)	192,500 Patrons (rolling 4-year average)	165,000 Patrons (rolling 4-year average)	• Probation for one year following first failure to achieve Default Requirements. • Event of Default if the following year (standing alone) fails to meet Default Requirement minimum levels.

1. All three-year averages are subject to force majeure exception.
2. HTT shall meet the requirements for the Penalty Goals in all categories and failure to meet the goals will impose the financial penalties listed in the far right row entitled Penalty Goals.
3. CCE will provide a Guarantee for the payment of all sums due in the Penalty Goal category, and failure to meet the Default Requirements for the minimum 60 events required in the category of Broadway/First Class Events will trigger payment of the Letters of Credit listed in 5(a), (b) and (c). In the event such Letters of Credit are paid upon the City's demand, CCE shall have no further obligations under the Guarantee.
4. Event shall be defined as a First Class Performing Arts Attraction or an event in 13(c) of the Term Sheet for the purpose of defining the number of Total Events. For the purpose of defining Broadway/First Class Events, Event shall be defined as First Class Performing Arts Attractions.
5. The financial penalties are to be CPI adjusted.
6. The City will allow the requirements for the Penalty Goals to be lowered if the Proposers provide an index of comparable market activity which is calibrated to those goals, and which is reasonably acceptable to the City.

In addition to its responsibilities for presenting the Broadway Season and other commercial performances, HTT will be engaging in an expanding role vis-à-vis community outreach and support of local performing arts, artists and arts education. These activities will be supported by annual expenditures (cash and in-kind) exceeding $1 million (Attachment A, Section 8). Part of the revenue stream to support these activities will come from HTT's share of the net revenues for the Broadway Season presented annually and any net income generated from shows it presents other than that Season (Attachment A, Section 10).

It is recommended that the City Council authorize staff to negotiate and execute a Lease for the Orpheum, State, and Pantages Theatres with Hennepin Theatre Trust (HTT), and the Operation and Booking by HTT, Historic Theatre Group (HTG), Ltd, and Clear Channel Entertainment (CCE) and related documents consistent with the proposed Term Sheet.

ATTACHMENT A – PROPOSED TERM SHEET

TERM SHEET

FOR LEASE, OPERATION, BOOKING AND DISPOSITION OF THE ORPHEUM, STATE, AND PANTAGES THEATRES

1. **Proposed Project**

In response to a Request for Proposals, Hennepin Theatre Trust ("HTT"), a nonprofit corporation, and Historic Theatre Group, Ltd. ("HTG"), a for-profit corporation, together with SFX Entertainment, Inc., dba Clear Channel Entertainment ("CCE"), have proposed to operate and manage the State, Orpheum and Pantages Theatres (the "Theatres") under a 30-year lease (the "Lease"). Pursuant to financing under the City's Common Bond Fund, the City of Minneapolis will be the primary tenant, and HTT the sub-tenant (the "Tenant"). The proposal will create a management agreement (the "Management Agreement") between HTG and HTT, and a consulting agreement (the "Consulting Agreement") between HTT and CCE in connection with the presentation of touring Broadway shows and other first class performing arts attractions. At the request of HTT and as partial consideration for its involvement with the Management Agreement and the Consulting Agreement, CCE will guarantee the Lease obligations under a corporate guarantee (the "Guarantee") in favor of the City. Under their proposal, the currently outstanding tax exempt theatre revenue bonds (the "Tax Exempt Bonds") will be refinanced with taxable theatre revenue bonds (the "Taxable Bonds"). With the Guarantee and certain Letters of Credit from CCE to secure the lease to HTT, the Taxable Bonds will be issued under the City's Common Bond Fund program. This will allow private investment in the Theatres to an extent not possible with tax-exempt bond financing.

2. **Parties**

a. The City of Minneapolis.

b. HTT is a 501(c)(3) Minnesota nonprofit charitable trust, which is the Broadway presenter under the current Master Use Agreement with the City.

c. HTG is a for-profit Minnesota corporation which currently manages the Theatres under a Management Agreement with the City. At Lease inception HTG will be jointly owned by Fred Krohn, Lee Lynch and CCE which will have majority control of the corporation.

d. Clear Channel Entertainment is a business name for SFX Entertainment, Inc. a wholly-owned subsidiary of Clear Channel Communications, Inc., a publicly traded corporation. CCE is the parent of PACE Theatrical Group, Inc. which currently provides consultant services to HTT under a Professional Management Services Agreement for HTT's Broadway Season.

3. **The Theatres**

The Theatres are wholly owned by the City. The Orpheum Theatre, located at 920 Hennepin Avenue, has 2,652 seats. The State Theatre, located at 805 Hennepin Avenue, has 2,150 seats. The Pantages Theatre, located at 710 Hennepin Avenue, has 999 seats.

There is currently $22,225,000 in outstanding Tax-Exempt Bonds which were issued by the MCDA in October of 2001. Proceeds from this bond issue were used to refund outstanding debt and provide additional funding for renovation of the Theatres.

Legal Descriptions of the Theatres are attached as Exhibits A, B and C, which are preliminary and subject to revision.

4. **Project Components**

Pursuant to the Lease, Management Agreement, Consulting Agreement and Guarantee, and certain Letters of Credit, the parties--HTT, HTG and CCE (collectively sometimes hereinafter, the "Parties")--must actively protect, maintain and repair the physical plants of the Theatres over the next thirty years and maintain and operate them as first class theatres, as defined in the Lease.

The Lease will require completion of certain deferred capital repairs and improvements, the currently-estimated cost of which is $1.5 million, as more fully described in Section 8(a) below and on Exhibit D attached, which is preliminary and subject to revision. Additionally, HTT shall require under its Management Agreement with HTG that the Parties must fund and carry out continuing maintenance and capital repairs over the entire period of the Lease. Financial assurance for the performance of these obligations will be provided as described below.

The words or phrases “maintenance,” “capital repairs,” “improvements,” “capital repairs and improvements” and similar words or phrases of like import as used herein denote ordinary and necessary maintenance, or ordinary and necessary capital repairs and replacements required to maintain the theatres as First Class Historic Theatres which would be customarily carried out in buildings of similar age, condition and character. These words shall not be construed to require any initiatives or extraordinary undertakings such as restorations, renovations, alteration or additions. Theatres which will used as comparisons in determining the level of maintenance and capital repairs appropriate to the Theatres include the historic theater components of The Pittsburgh Cultural Trust, Playhouse Square for the Performing Arts in Cleveland, and the Denver Center for the Performing Arts (the “First Class Historic Theatres”).

HTT must provide a diverse variety of live performances including concerts, dance, comedy, theatre and the best available touring Broadway shows, which are or may become the typical attractions (“First Class Performing Arts Attractions”) at other first class performing arts facilities such as The Ordway Center, Playhouse Square for the Performing Arts in Cleveland, The Pittsburgh Cultural Trust, the Denver Center for the Performing Arts and The Tampa Bay Performing Arts Center (collectively referred to as “First Class Performing Arts Facilities”) as more fully described in the Lease. Performance measures will be incorporated into the Lease as described below.

HTT agrees to raise private, corporate and foundation funds to support its mission of preserving the Theatres and providing superior educational and cultural opportunities for the citizens of Minneapolis and the upper Midwest. The Lease will contain endowment fund goals to be achieved by HTT during the term of the Lease.

The City will no longer be involved in the management of the Theatres but will continue to monitor and enforce the Lease.

The Lease term extends for thirty years, or until the final maturity and retirement of the Taxable Bonds, whichever is later. At the conclusion of the Lease term, assuming satisfaction of certain conditions described below, HTT will be able to exercise an option to buy the Theatres for one dollar.

5. **Guarantee; Additional Financial Assurances**

At the request of HTT and as partial consideration to HTT for CCE's involvement with the Management Agreement and the Consulting Agreement, CCE will provide the City with a corporate Guarantee to support certain of HTT's obligations under the Lease.

The Guarantee will cover (i) the obligations set out in clauses (1) through (7), inclusive, of Section 7 (d), and (ii) the Financial Penalties set out in the far right hand column of the Matrix attached as Exhibit E which may be assessed for failure to meet Penalty Goal event or patron requirements (as more fully set out in the Matrix). In addition, the Guaranty will provide (iii) that failure to meet the Default Requirements for the minimum 60 events required in the Broadway/First Class Events category of the Matrix will result in drawing of the Letters of Credit listed in Section 5(a), 5(b) and 5(c) and such drawing will be deemed to have satisfied in full all obligations of CCE under its Guarantee, and thereafter HTG shall have no further liability or obligation under the Management Agreement, and CCE shall have no further liability or obligation under the Consulting Agreement or the Guaranty. As well, the Guaranty will provide (iv) that failure of HTG or CCE to abide by the control and transfer provisions of Section 8 (c) will result in drawing of the Letters of Credit listed in Section 5(a), 5(b), and 5(c) and such drawing will be deemed to have satisfied in full all obligations of CCE under its Guarantee, and thereafter HTG shall have no further liability or obligation under the Management Agreement, and CCE shall have no further liability or obligation under the Consulting Agreement or the Guaranty. The conditions for such drawing are more fully set out in Section 8 (c).

CCE will not guarantee the achievement of HTT's endowment goals, or education and outreach activities. To secure its Guarantee in the event of default by HTT for its obligations under the Lease, CCE may create a perfected security interest in funds and accounts under the control of HTT and HTG relating to the Theatres and their operation and shall have a right of setoff against monies in the possession or under the control of CCE or HTG relating to the Theatres and their operation the exercise of which shall be subject to the condition that CCE and HTG have not defaulted on their Management Contract, Consulting Agreement, Guarantee and Letters of Credit.

To secure certain of its obligations under the Guarantee and to protect the City from certain financial risks in the event CCE shall fail to cure events of default listed in the second paragraph of this Section, or in the event CCE shall fail to perform under the Guarantee, effective upon the commencement of the Lease and issuance of the Taxable Bonds, CCE will provide one or more Letters of Credit in a form reasonably approved by the City drawn on a bank or banks reasonably approved by the City (the "Letter of Credit"), for the benefit of the City which may be drawn by the City in the event CCE fails to cure a default under the Lease as follows:

(a) A Letter of Credit in the amount of $10,500,000 which may be drawn by the City in the event of failure by CCE to cure a default under the Lease as set out in 5(i), 5(ii), 5(iii) and 5(iv) above;

(b) A Letter of Credit in the approximate amount of $1,600,000 for the debt service reserve required for the Taxable Bonds which may be drawn by the City in the event of failure by CCE to cure a default under the Lease as set out in 5(i), 5(ii), 5(iii) and 5(iv) above;

(c) A Letter of Credit in the amount of $750,000 which may be drawn by the City in the event of failure by CCE to cure an event of default under the Lease in respect of capital or ordinary repairs required under the Lease as set out in Section 8 (a) and which may be drawn by the City in the event of a failure by CCE to cure a default under the Lease as set out in 5(i), 5(ii), 5(iii) and 5(iv) above.

CCE will pay cash for the costs of issuance of the proposed bond refunding, currently estimated at $650,000.

CCE will execute a re-imbursement agreement which fully covers the City's costs and expenses for the preparation costs of this agreement in the event that it fails to close. The reimbursement agreement will be fully executed within thirty days of City approval of this Term Sheet.

6. Public Financing

The Tax Exempt Bonds for the Orpheum and Pantages Theatres currently outstanding in the principal amount of $22,225,000 will be refunded and defeased by Taxable Bonds with a term of approximately thirty years. The Taxable Bonds will be issued through the Common Bond Fund, subject to an original lease in the City of Minneapolis, a sub-lease to HTT, and the Guarantee and Letters of Credit provided by CCE. The existing debt service reserve for the Tax Exempt Bonds will be deposited in the defeasance escrow.

The debt service reserve for the Taxable Bonds will be satisfied through the Letter of Credit under Section 5(b) of this Term Sheet in lieu of a cash-funded reserve. The costs of the negative arbitrage arising out of the refunding, but not the costs of issuance of the refunding, will be financed from proceeds of the Taxable Bonds. Debt service on the Taxable Bonds will be covered by rent payments under the Lease. Lease payments will be further secured by the Guarantee of CCE and the Letters of Credit in the amounts set out in Section 5, above.

The Common Bond Fund will explore a possible tender offer to holders of the Tax Exempt Bonds to reduce the cost of negative arbitrage and thus the size of the Taxable Bond issue. This activity will take place shortly before the refunding of the Tax-Exempt Bonds, and its chances of success in reducing the cost of negative arbitrage cannot be predicted.

In view of the obligations and credit enhancements being undertaken by the Parties through the Lease, the Management Agreement, the Consulting Agreement, the Guaranty and the Letters of Credit, the City and the Common Bond Fund will cooperate with and allow the Parties to participate in the process of structuring, sizing, offering and pricing the Taxable Bonds. The Parties will be notified of and representatives of the Parties will be invited to attend meetings of the City Council, City and CPED staff, Common Bond Fund working groups and staff, or others, involving the Taxable Bonds. The Parties may participate in the structuring of the tender offer, if any, for the Tax Exempt Bonds, and the structuring and offering of the Taxable Bonds. Prior to any offering of the Taxable Bonds the Parties will be provided with of the proposed terms and offering materials and will have the opportunity to confer with the City and Common Bond Fund regarding the proposed structure and terms of the offering. The Parties may participate in pricing calls. The final sizing, maturity schedule and amounts, interest rates, discount or premium, debt service schedule and optional and mandatory redemption features of the Taxable Bonds will be subject to approval of the Parties, which approval will not be unreasonably withheld.

The City will have no further obligations to provide for any funding or repair for capital or ordinary maintenance of the Theatres or support for their programming.

The Taxable Bonds (and any bonds which refund the Taxable Bonds) will not be refunded nor will the terms thereof be modified without the consent of the Parties, which consent may be withheld if any such refunding or modification would, in the reasonable judgment of HTT, HTG or CCE, increase their financial obligations, extend the final maturity of any bond, or otherwise adversely affect them. If the Taxable Bonds (or any bonds which refund the Taxable Bonds) are refunded or defeased or the terms thereof modified with the consent of HTT, HTG and CCE, it is the City's intent that the financial benefits realized be passed through to the Parties to the extent that is practicable and can be satisfactorily negotiated by the City and the Parties for inclusion in the Lease. No Party in default of its obligations under the Guarantee, Letters of Credit or the Lease will have any right or interest in the City's decision to refund the bonds or modify their terms or in any benefit derived if the City determines to refund the Taxable Bonds.

7. **General Lease provisions**

HTT will sub-lease the Theatres from the City pursuant to the Lease. The terms of the Lease include the following:

a. The term of the Lease will be for thirty (30) years, or until the final maturity and retirement of the Taxable Bonds, whichever is later.

b. The semi-annual Lease payments under the Lease will be equal to the semi-annual debt service on the Taxable Bonds, plus customary, reasonable incidental CBF program costs such as agent fees.

c. The Lease will be a financing lease of the type used in the City's Common Bond Fund, a sample copy of which had been provided to the Parties and which will include terms required by the Common Bond Fund Indenture and will provide, inter-alia, that the City may require an acceleration of all rent due under the Lease in the event of default. The amount of the Guarantee will not exceed (i) the principal amount which remains to be paid on the Taxable Bonds, after application of the proceeds received from the drawings on the Letter of Credit, at the time of the rent acceleration, (ii) the costs of refinancing the Taxable Bonds should the City determine, in its sole discretion, to do so, and (iii) the costs reasonably incurred by the City in reestablishing effective operation of the Theatres, not to exceed the sum of 18 months of debt service on the Taxable Bonds.

d. HTT will assume absolute and unconditional responsibility for all of the obligations of the Lease, including but not limited to:

(1) the payment of all Lease payments when due;

(2) the funding and supervision of all capital repairs required under the Lease;

(3) the funding and supervision of all maintenance and repairs to the Theatres required in order to maintain the Theatres, in condition comparable to the First Class Historic Theatres;

(4) the responsibility to provide insurance coverage as required by the Lease;

(5) the customary operating expenses under a triple net lease;

(6) the responsibility, in the event that one or more of the Theatres is damaged by fire or casualty, to proceed in accordance with the Lease to repair, rebuild, or replace the damaged portion(s) of the Theatres, or to apply all or a portion of insurance proceeds to prepay the Lease rental payments, or to proceed otherwise as the Lease may provide; and

(7) the responsibility to book the Theatres for the entire term of the Lease.

As part of its due diligence for entering into the Lease, HTT, in consultation with the other Parties, will review all City contracts relative to the Theatres, and will determine which of such contracts will be assigned to and assumed by HTT and the other Parties. By May 1, 2005 HTT, HTG and the City will mutually identify and review all contracts and agreements which relate to the Theatres, or by which the Theatres may be bound. The City agrees to terminate prior to Lease commencement those contracts which the Parties determine not to assume and which are terminable by the City without expense to the City. HTT will assume all other contracts. HTT agrees to provide the list of contracts which it seeks the City's consent to terminate no later than July 28, 2005.

The City will no longer impose or receive restoration fees on the Theatres after the commencement of the Lease. Revenues generated by or in respect of the Theatres' operations after the commencement of the Lease will not be considered City revenues and if received by the City thereafter will be promptly paid over by the City to the Parties. At Lease inception theCity will pay over to the Parties any ticket receipts, restoration fees and other revenues and receipts collected or held by the City or its agents for events occurring after the Lease inception date subject to refunds or expenses appropriately allocated to such sales. The City and the Parties will negotiate and determine in good faith appropriate allocation, pro-ration and settlement of all other applicable funds and accounts and monies on hand at lease closing relating to the financing, maintenance, management and operation of the Theatres with respect to periods prior to and following the date of Lease inception.

Prior to the commencement of the Lease, HTT shall have in place a plan approved by its Board which sets forth the initial duration of its employment relationship with Tom Hoch and which further establishes the process for recruiting and hiring of his successor and which assures a strong Board and Officers for the duration of the Lease. The Board of HTT shall provide, for review and approval by the CPED director, a plan for the expansion of the Board and for the development of its fundraising and governance capabilities. The Plan shall reference relevant standards suggested by the Minnesota Council on Non-Profit Organizations. Such plan shall be reviewed and approved by the Board on an annual basis and made available to the City.

Upon commencement of the Lease, and pursuant to the Management Agreement which it holds with HTT, HTG shall provide notice to the City of its key corporate officers and shall provide notice to the City of any subsequent changes during the course of this lease.

8. **Additional Requirements Under the Lease**

a. Deferred capital repairs and improvements; on-going maintenance and capital repairs.

The City and the HTG have identified certain capital repairs and improvements, which are listed on Exhibit D attached which is preliminary and subject to revision. The Lease will require that approximately $1.5 million be expended from funds of HTT, HTG or CCE to carry out such repairs. Upon Lease commencement and following consultation with HTT, HTG will provide HTT and the City with a schedule for initiation and completion of such repairs, which HTG will undertake in good faith and with diligence and which HTG anticipates are likely to be completed within 12 months of Lease commencement. The actual times of initiation of such repairs will be subject to customary qualifications such as force majeure, unavailability of labor or materials, and scheduling of presentations at the Theatres. However, in all circumstances the repairs shall have been completed by prior to the start of the third Broadway season after lease execution.

The Lease will require ordinary maintenance and capital repairs and improvements as necessary over the term of the Lease to maintain the Theatres in condition comparable to the First Class Historic Theatres. The City, HTT and HTG will submit to arbitration any dispute arising from an alleged failure on the part of HTT or HTG to fulfill this Lease obligation. In the event that arbitration results in a determination that the capital or ordinary repairs must be completed, failure to do so in accordance with such determination will entitle the City to give notice to CCE under the Guarantee and if CCE fails to perform the repairs, the City may immediately draw down the Letter of Credit described in Section 5(c) and make the required capital or ordinary repairs. Failure to replenish the Letter of Credit, after such drawing, will be an event of default under the Lease.

Within six months following the commencement of the Lease, HTT shall pay for the services of an expert mutually acceptable to HTT, HTG and the City, who will complete an identification and review of the capital elements of the three Theatres, and propose a schedule for improvements based on the useful lives for those elements and provide such schedule to the City. HTT and HTG shall implement the plan and will exercise their best professional judgment as to the precise timing of improvements set forth in the schedule. In January of each year, HTT will submit to the City a report identifying the capital improvements made to the Theatres during the previous twelve months. After consultation with HTG, HTT will also submit an annual report capital repair and improvement plan for the ensuing year. At five year intervals, HTT, at its expense, using an expert mutually acceptable to HTT, HTG and the City, will update the schedule of capital improvements.

b. Performance standards

(i) HTT will use commercially reasonable efforts to schedule events and maximize the use of the Theatres, including obtaining the best available touring Broadway shows or other performance of a First Class Performing Arts Attractions appropriate to First Class Performing Arts Facilities. The standard of performance will be based on a rolling average of the annual number of individual events and will be subject to the condition of force majeure. An event will be defined as a single performance of a First Class Performing Arts Attraction or an event described in 13 (c) at any of the Theatres. Matinee and evening performances on the same day will constitute two individual events.

The Lease will incorporate appropriate provisions of the current Master Use Agreement regarding performance standards, including Section 3.4.

The matrix attached as Exhibit E sets out the performance standards and the penalty and default provisions which will be set out as the respective Parties' obligations under the Lease, Management Agreement, Consulting Agreement, Letters of Credit and Guarantee.

(ii) HTT will agree to provide opportunities for theatre arts education and community engagement to a wide diversity of persons, including persons underserved by the Trust's activities. The Trust will annually present to the CPED Director a plan that details its intended educational programming and outreach plans for the coming year. The Trust will establish an education advisory committee to assist it in formulating its annual plan and evaluating its programs and outreach efforts. Initially, in 2006, the Trust will convene a group of advisors from the local arts and education communities in order to secure their input on how to carry out educational programming and outreach efforts. The Trust will continue to promote its presentations through a variety of media targeted to a diversity of audiences including, by way of example, KMOJ, B96, WRNB, Insight News, Minneapolis Spokesman, St. Paul Recorder, LaPrensa, Latino Midwest, Vida Y Sabor, La Voz Latina, Asian Pages, Asian American Press and Lavender Magazine.

(iii) HTT shall spend no less than $1,000,000 annually (cash and in-kind) for education and presenting and/or co-producing activities. Examples of such activities include (a) presenting and/or co-producing two locally produced productions (including professional productions) which are ethnically and culturally diverse, per year in the Hennepin Theatre District for the first three years after the commencement of the Lease, and up to four such locally produced productions each year by 2010; (b) developing programs for individual skill building, group access, and linkages to other organizations; (c) fostering programs such as the existing Critical View student reviewer program; and (d) facilitating youth initiatives aimed at connecting young people to the Hennepin Theatre District. HTT's expenditures shall not be reduced by the $250,000 worth of public service advertising which CCE has agreed to provide for HTT's mission.

c. No assignment or change of control.

HTT shall not assign or transfer the Lease, either in whole or in part, or sub-lease, encumber, pledge or mortgage the Theatres in any manner, nor shall title thereto, either legal or equitable or any right, interest or property therein, pass to or vest in any other person nor shall ownership or control of HTT be transferred or assigned in any manner without the prior written consent, in its sole discretion, of the City. For these purposes, a change in control of HTT will be deemed to have occurred if there is (i) a replacement within any twelve (12) month period of fifty percent (50%) or more of the members of the Board of Trustees of HTT; or (ii) a consolidation, merger, acquisition, or affiliation involving HTT in which HTT or substantially all of its assets) becomes owned by or accountable to or controlled by another entity where a majority of the governing board of such other entity were not members of the Board of Trustees of HTT. Violation of this term shall be an event of default under the Lease.

HTG shall provide in its Management Agreement with HTT that no assignment of its obligations under the contract with HTT shall be allowed, and that control of HTG shall not be transferred or assigned in any manner without the prior written consent, in its sole discretion, of the City. Violation of this term shall be an event of default under the Lease. Notwithstanding the foregoing prohibition, the Management Agreement and HTG obligations under the Management Agreement and the control of HTG may, after notice to the City, be assigned or transferred in accordance with Section 9, but any change of control not consistent with the changes of assignment and transfer allowed in Section 9 shall be an event of default under the Lease.

CCE shall provide as part of its Guarantee and as part of its Consulting Agreement with HTT, that control of CCE shall not be transferred or assigned in any manner without the prior written consent, in its sole discretion, of the City. Not withstanding the foregoing prohibition, the Consulting Agreement and CCE's obligations under the Consulting Agreement, and control of CCE may, after notice to the City, be assigned or transferred as provided in Section 10, but any change of control not consistent with the changes of assignment and transfer allowed in Section 10 shall be an event of default under the Lease.

The Parties, HTT, HTG, and CCE will promptly notify the City of any actual or proposed change in, or transfer of, or acquisition by any other party of control of the corporations or partnership as the case may be. As to HTT, the word control is described in the first paragraph of Section 8(c). As to HTT and CCE, the word "control" includes (i) 51% or more of the ownership interests (shares of a corporation, general partnership interests in a general or limited partnership, or membership interest in a limited liability company) in a Party and (ii) 51% or more of the right or power under any other arrangement to elect a majority of the board of directors of a corporation, the majority of governors or managers or the chief manager, of a limited liability company, or a majority of the general partners of a partnership, and (iii) the right or power under any other arrangement to direct or to veto the elections described in clause (ii) or the management or financial affairs of any such entity. Every change, transfer or acquisition of control of HTT, HTG or, CCE in violation of the above language, will be an event of default under the lease unless and until the City, in its sole discretion, consents to it.

Should HTG assign the Management Agreement or its obligations there under, or should there occur a change in control of HTG, other than to an Affiliate as permitted by the terms of Section 9, without the consent of the City as provided above, or should CCE assign the Consulting Agreement or its obligation there under, or should there occur a change in control of CCE, other than to an Affiliate as permitted by the terms of Section 10, without the consent of the City as provided above, the City in such case shall draw on the Letters of Credit described in Sections 5(a), (b) and (c). Such drawing will be deemed to have satisfied in full all obligations of CCE under its Guarantee, and thereafter HTG shall have no further liability or obligation under the Management Agreement, and CCE shall have no further liability or obligation under the Consulting Agreement or the Guaranty.

d. Endowment and Operating Reserves Requirement.

HTT shall (i) create a fund functioning as an endowment in the amount of at least $5,000,000 by year 17 of the Lease term to support its operating activities, and (ii) create a separate fund functioning as an endowment of $5,000,000 by year 28 of the Lease term to support the preservation, enhancement and maintenance of the Theatres. HTT will update the City annually on its progress in reaching these amounts. Failure to create the above funds and achieve the requisite fund amounts will be an event of default under the Lease and will preclude exercise of the purchase option provided in Section 12 below.

The Lease will also require HTT to achieve, by the end of year 12 of the Lease term, three consecutive years between years 8 and 12 of the Lease term with operating reserves equal to or greater than two months of its annual management and general operating budget. By the end of year 20, HTT will be required to have three consecutive years with operating reserves equal to or greater than 4 months of its annual operating budget.

HTT shall provide an annual audited financial statement to the director of CPED.

HTT will provide, in consultation with HTG and CCE, a 10 year pro-forma budget for its operations for review by the City which shall be updated every three years.

9. **Management Agreement**

HTT will enter into a Management Agreement with HTG to manage the day-to-day operations and booking of the Theatres and perform the Lease obligations listed in Section 7(d) clauses (1) through (7), on behalf of HTT. The term of the Management Agreement will be equal to the term of the Lease.

HTG's duties under the Management Agreement will include, but not be limited to:

a. the hiring of staff for all positions relative to the Theatres, including box office, stage employees, concessions, maintenance, administrative and ushering employees;

b. the booking of the Theatres;

c. the performance of the routine maintenance, repairs and replacement of fixtures, furniture, furnishings, stage equipment;

d. the funding and administration of all capital improvements and repairs to the Theatres;

e. the assurance to HTT that HTT's responsibility under the Lease to maintain the Theatres as First Class Historic Theatres is met; and

f. the timely payment of all water, electricity, sewage, telephone and other utilities;

g. the performance of the Lease obligations on behalf of HTT in Section 7 (d), clauses (1) through (7).

The provisions of the Management Agreement will assure HTT that HTG will perform its responsibilities under the Management Agreement at no financial cost to HTT except as explicitly provided in the Management Agreement.

HTG shall have the right to assign its rights and obligations under the Management Agreement to any Affiliate of HTG, provided (i) no Event of Default by HTG under the Management Contract and no event which, with the giving of notice, the passage of time, or both would constitute an Event of Default by HTG, exists; and (ii) on the date of the assignment, and as a condition thereof, the Affiliate, as assignee, shall execute and agree to-perform all of the obligations arising under the Management Agreement. In addition, control of HTG may be transferred to an Affiliate.

An "Affiliate" means (i) an entity that is controlled by HTG or CCE, or that is a directly or indirectly controlled subsidiary of Clear Channel Communications, Inc., and (ii) that, after the assignment or transfer, will own, operate or manage at least four (4) venues (including the Theatres as one venue) in North America which are first class performing arts facilities comparable to the First Class Performing Arts Facilities (provided that if not owned by the assignee or transferee, the venues must have been (or will be, if the assignee or transferee operates or manages such venues through the term of the then-existing management agreements) continually managed by such assignee or transferee for five (5) years.)

10. **Consulting Agreement**

HTT will present a wide diversity of live entertainment attractions at the Theatres, including concerts, dance, comedy, theatre, and Broadway shows. In connection with HTT's booking of a Broadway Season, HTT will engage CCE to secure the best available touring Broadway shows or other First Class Performing Arts Attractions. HTT will enter into a Consulting Agreement with CCE under which HTT will continue to act as the presenter while covenanting to maintain its status as a nonprofit, 501(c)(3) organization and which agreement will be substantially in the form of the Professional Management Services Agreement currently in effect between HTT and PACE Theatrical Group, Inc. except that the Consulting Agreement will provide CCE with compensation not to exceed 50% of the net revenues of each Broadway Season in return for its services as detailed in the Consulting Agreement. For shows other than those in the Broadway Season, HTT will retain 100% of the net income generated (or other negotiated percentage).

CCE shall have the right to assign the Consulting Agreement and its rights and obligations under the Consulting Agreement to any Affiliate of CCE, provided (i) no event of Default by CCE and no event which with the giving of notice, the passage of time, or both would constitute an Event of Default by CCE, exists under the Consulting Agreement; and (ii) on the date of the assignment, and as a condition thereof, the assignee shall execute and agree to perform all of the obligations arising under the Consulting Agreement. In addition, control of CCE may be transferred to an Affiliate.

An "Affiliate" means an entity (i) that is controlled by HTG or CCE, or, that is a directly or indirectly controlled subsidiary of Clear Channel Communications, Inc., and (ii) that is a professional entertainment corporation engaged in the business of providing professional management services and expertise of the kind required to be provided under the Consulting Agreement and is providing such services in at least four other markets in North America. Under no circumstances may CCE assign, sell or barter its obligations with respect to the Guaranty and Letters of Credit.)

11. **Project Collateral and Performance Security; Non-Disturbance Rights and Remedies**

The City remains the fee owner of the Theatres until the end of the Lease Term and thereafter unless HTT exercises, as of right, its option under Section 12.

The Lease will contain appropriate default, notice and right to cure, re-entry, acceleration and termination provisions. If Minn. Stat. 504B.291, Sub. 2 applies to the Lease (which provides that leases of more than 20 years require a redemption period of six months for the tenant in the event lease is cancelled by tenant's default), then tenant must consent to the appointment of a receiver. The receiver shall be either HTG or CCE. Note that if the Taxable Bonds are issued under the authority of Minn. Stat. 469.156, the provisions of 504B.291, Sub. 2 are of no force or effect.

The Parties to the Lease, including the City, will affirm that they do not intend the lease to be a legal or equitable mortgage upon the Theatres.

The Lease payments in the event of default by HTT will be guaranteed by CCE, as set out in Section 5. To secure certain of its obligations under the Guarantee and to protect the City against certain financial risks in the event CCE shall fail to perform the Guarantee, CCE is providing the Letter of Credit under Section 5(a) and (b) for the benefit of the City. In case of an event of default under the Lease which relates to a Lease obligation covered by the Guarantee, the City will notify CCE and seek performance by CCE of the Guarantee. Should CCE fail to perform the Guarantee, the City may, at its sole option, exercise the remedies set out in the Lease, including accelerating the rent, and presenting and collecting on all Letters of Credit which provide security for the bonds as set out in Paragraph 5. No action by the City to exercise its rights under the Letter of Credit shall be considered a waiver of its rights under the Guarantee provided by CCE except as otherwise provided herein.

In consideration of CCE's financial obligations relative to the Theatres for the entire term of the Lease and to further secure CCE's Guarantee, the City, CCE and HTG will enter into an agreement (a memorandum of which may be recorded on the land records), which will provide that:

a. The City will notify CCE and HTG of any defaults by HTT under the Lease, and no notice of default will be effective unless CCE and HTG have received notice of such default;

b. In the event of a default on the terms of the Lease by HTT (not caused by an underlying default by HTG in its obligations under the Management Agreement or CCE under its Consulting Agreement), so long as CCE is performing its Guarantee, the City may reenter the property and, at the request of HTG, allow HTG to temporarily assume the sub-lease held by HTT, the City will not accelerate the rent under the Lease, and will not attempt to terminate or disturb performance by HTG under the Management Agreement or CCE under the Consulting Agreement, the City will allow HTG to (i) cure the default, (ii) participate in the mutual selection with the City, of an alternate 501(c)(3) not for profit entity to replace HTT as tenant under the Lease (either by amendment of the Lease or by entering into a new lease on the same terms), and require that the replacement tenant assume the Management Agreement and Consulting Agreement or enter into a new management agreement and a new consulting agreement on terms satisfactory to the City, HTG and CCE, respectively.

12. **Option to buy for one dollar**

Upon the expiration of the Lease Term (which corresponds to the term of the underlying Taxable Bonds), and provided that (a) all Lease payments due under the Lease have been made, (b) all obligations under the Lease have been paid and satisfied in full, (c) there has been no continuing and uncured default by HTT, (d) HTT has not been declared insolvent or bankrupt, (e) HTT has maintained its 501(c)(3) status, and (f) HTT has met or exceeded its endowment goal pursuant to paragraph 8(c) above, then HTT will have the right to purchase the Theatres in "as-is" from the City for a purchase price of one dollar ($1.00).

13. **Uses of the Theatres**

a. HTT and HTG will operate, manage, occupy and use the Theatres as First Class Performing Arts Facilities.

b. HTT and HTG will present musical, dramatic, theatrical, comedic, dance or other artistic presentations that are consistent with the venues' roles as first class performing arts facilities.

c. HTT and HTG will book the theatres for uses other than live performances, including the following: receptions, dinners and other catered events, weddings, religious services or ceremonies, fundraising events, conventions, commercial events and other public, private or commercial gatherings or assemblies, so long as the foregoing are compatible with first class performing arts facilities and do not interfere with scheduling of live performances.

d. The Theatres shall not be used for any (i) sexually oriented business as defined in Minneapolis City Code sections 549.340 or (ii) any gambling or gambling related activities other than incidental activities such as casino-related parties. No part of the Theatres shall be used as an Adults-Only Bookstore, Adults-Only Motion Picture Theatre, Adult Entertainment Center, Massage Parlor, Rap Parlor or Sauna as such terms are defined in the City's Code of Ordinances.

e. The Theatres may incorporate ancillary uses such as one or more restaurants, bars, clubs, coffee shops, catering services, parking services, or other business enterprises, so long as such uses are consistent with and compatible with the venues' primary use as first class performing arts facilities.

f. The Parties will consider regional theater venue options in their sole discretion.

14. **City Contingencies**

Acceptable Lease provisions, Guarantee, Letters of Credit, Management Agreement and Consulting Agreement terms.

Refunding or otherwise refinancing of the Tax-Exempt Bonds with Taxable Bonds.

The Theatres cannot be mortgaged.

15. **Proposer Contingencies**

Acceptable Lease provisions, Guarantee, Letters of Credit, Management Agreement and Consulting Agreement terms.

Refunding or otherwise refinancing of the Tax Exempt Bonds with Taxable Bonds.

16. **Environmental conditions**

Tenant responsible for all environmental requirements of federal, state and local law. City will represent and warrant to the best of its knowledge to Tenant, HTG and CCE as to current compliance.

17. **Historic Designation**

Tenant will recognize and protect the historic status and designation of the Theatres. Any future decision by the City to create or allow historic designations will be made expressly subject in the Lease to the consent of Tenant, HTG and CCE which consent may be withheld if any such creation or designation could, in the reasonable judgment of Tenant, HTG or CCE, have a material adverse effect on their operation and management of the Theatres. (The Pantages Theatre is the subject of current Historic Designation proceedings.)

18. **Compliance with City Code**

Tenant will comply with all provisions of the City Code. City will represent to the best of its knowledge to Tenant, HTG and CCE as to current compliance or any "grandfathered" status which the Theatres may enjoy.

Capital improvement work at the theaters will, as applicable, subject the Lessee, and the contractor retained by the Lessee or its manager, to the City's Civil Rights Ordinance and the City's Department of Community Planning and Economic Development (CPED) Prevailing Wage Policy and Registered Apprenticeship Policy.

19. **Closing**

The City will lease and option the properties to HTT upon satisfaction of the City's contingencies is estimated to be no later than October 1, 2005.

20. **Term Sheet not a binding legal agreement**

Term Sheet is not a legally binding agreement, but a basis for further negotiation. The City will delegate the approval of the final documents to the Executive Director of CPED.

Certificate of Title

Certificate Number: **1133442** Document Number: 3993335

Transfer From Certificate Number: 776618

Originally registered the 21st day of May, 1953. Book: **653** Page: **198916** Dist. Court No.: **6826**

State of Minnesota
County of Hennepin } s.s.

REGISTRATION

This is to certify that

City of Minneapolis, a Minnesota municipal corporation and political subdivision, Minneapolis, Minnesota is now the owner of an estate in fee simple

of and in the following described land situated in the County of Hennepin and State of Minnesota,

Lot 6, Auditor's Subdivision No. 126, Hennepin County, Minn.

All corners of which are marked by Judicial Landmarks, which judicial landmarks are designated A, B, C, D, E and F, on the plat of said premises filed in Torrens Case No. 6826, dated May 5, 1953, prepared by Egan, Field & Nowak, Surveyors, and that said judicial landmarks D and E have been replaced by said Surveyors pursuant to the Order entered in Torrens Case No. A-16357.

Subject to an easement in favor of Lot 7, Auditor's Subdivision Number 126, Hennepin County, Minnesota for the continuance of the present projection (and only the present projection) of a portion of the upper part of the building situated upon said Lot 7, Auditor's Subdivision Number 126, Hennepin County, Minnesota, over the line between said Lot 6 and 7, Auditor's Subdivision Number 126, Hennepin County, Minnesota, as long as said building situated on said Lot 7, Auditor's Subdivision Number 126, Hennepin County, Minnesota shall continue in its present location; and that if the building now situated on said Lot 7, Auditor's Subdivision Number 126, Hennepin County, Minnesota shall be removed, or shall be destroyed by fire, or the elements, or by any other cause, then and in such case, said easement on Lot 6, Auditor's Subdivision Number 126, Hennepin County, Minnesota, shall thereupon cease and terminate.

Subject to the party wall agreement dated November 1, 1899, and recorded in the office of the Register of Deeds of Hennepin County, Minnesota, in Book 95 of Miscellaneous, on page 622.

Subject to the interests shown by the following memorials and to the following rights or encumbrances set forth in Minnesota statutes chapter 508, namely:

1. **Liens, claims, or rights arising under the laws or the Constitution of the United States, which the statutes of this state cannot require to appear of record;**
2. **Any real property tax or special assessment;**
3. **Any lease for a period not exceeding three years, when there is actual occupation of the premises under the lease;**
4. **All rights in public highways upon the land;**
5. **Such right of appeal or right to appear and contest the application as is allowed by law;**
6. **The rights of any person in possession under deed or contract for deed from the owner of the certificate of title;**
7. **Any outstanding mechanics lien rights which may exist under sections 514.01 to 514.17.**

MEMORIALS

Document Number	Document Type	Date of Registration Month Day, Year Time	Amount ($)	Running in Favor of
2353324	Easement	Mar 10,1993 04:00 PM		Clifford L. Mackenzie & Laura M. Mackenzie, hus & wf & Douglas L. Trainer & Alice M. Trainer hus & wf. Granting a walkway area easement over pt of above land (See Inst)
2381664	Resolution	Jun 04,1993 03:00 PM		Resolution No. 92R-593. By the City Council of the City of Minneapolis. Vacating a portion of 10th Street North between Hawthorne & Hennepin Avenues (See Inst)

EXHIBIT A

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of my office this 22nd day of July, 2004.

MICHAEL H. CUNNIFF

Registrar of Titles,

In and for the County of Hennepin and State of Minnesota.

Certificate of Title

Certificate Number: **1133441** Document Number: **3993335**

Transfer From Certificate Number: **720626**

Originally registered the 9th day of July, 1903. Book: **1** Page: **150** Dist. Court No.: **1**

State of Minnesota
County of Hennepin } s.s.

REGISTRATION

This is to certify that

City of Minneapolis, a Minnesota municipal corporation and political subdivision, Minneapolis, Minnesota
is now the owner of an estate in fee simple

of and in the following described land situated in the County of Hennepin and State of Minnesota,

That part of Lots 2 and 3 of Auditor's Subdivision No. 126, Hennepin County, Minn., being that part of Lot 4, Block 6, Wells, Sampson and Bell's Addition to Minneapolis, described as follows: Beginning at the Northwesterly corner of said Lot 4; thence Northeasterly along the rear or Northwesterly line of said lot to Ninth Street North, as originally laid out and platted; thence at right angles Southeasterly 17.4 feet to a point in the boundary line between said Lot 4 and Ninth Street North; thence at right angles and parallel with the Northwesterly line of said Lot 4, Southwesterly a distance of 35.2 feet; thence Southerly to a point in the dividing line between Lots 3 and 4 in said Block 6 distant 28.76 feet Southeasterly from the Northwesterly corner of said Lot 4; thence Northwesterly along said dividing line between said Lot 3 and said Lot 4 to the point of beginning, together with that part of Ninth Street North in the City of Minneapolis, Minnesota, as originally laid out and platted which was vacated by Resolution of the City Council of the City of Minneapolis, dated January 28th, 1921 and which lies Southwesterly of the extension Southeasterly of the dividing line between said Ninth Street North and Lot 13 in Block 6, Wells, Sampson & Bell Addition to Minneapolis, if said dividing line were extended Southerly to its intersection with the dividing line between said Ninth Street North and Lot 4 in said Block 6.

Subject to the interests shown by the following memorials and to the following rights or encumbrances set forth in Minnesota statutes chapter 508, namely:

1. **Liens, claims, or rights arising under the laws or the Constitution of the United States, which the statutes of this state cannot require to appear of record;**
2. **Any real property tax or special assessment;**
3. **Any lease for a period not exceeding three years, when there is actual occupation of the premises under the lease;**
4. **All rights in public highways upon the land;**
5. **Such right of appeal or right to appear and contest the application as is allowed by law;**
6. **The rights of any person in possession under deed or contract for deed from the owner of the certificate of title;**
7. **Any outstanding mechanics lien rights which may exist under sections 514.01 to 514.17.**

MEMORIALS

Document Number	Document Type	Date of Registration Month Day, Year Time	Amount ($)	Running in Favor of
2794488	Easement	Mar 14,1997 03:00 PM		Between Bravo Holdings, LLC (a MN LLC) and Minneapolis Community Development Agency. Granting easements for courtyard and other purposes over pt of above land together with said easement over other land. (See Inst)

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of my office this 22nd day of July, 2004.

MICHAEL H. CUNNIFF

Registrar of Titles,
In and for the County of Hennepin and State of Minnesota.

Parcel 23:
928 Hennepin Avenue (PID No. 27-029-24-12-0038)

see Certificate 1133442

Lot 6, Auditor's Subdivision No. 126, Hennepin County, Minn.

All corners of which are marked by Judicial Landmarks, which judicial landmarks are designated A, B, C, D, E and F, on the plat of said premises filed in Torrens Case No. 6826, dated May 5, 1953, prepared by Egan, Filed & Nowak, Surveyors, and that said judicial landmarks D and E have been replaced by said Surveyors pursuant to the Order entered in Torrens Case No. A-16357.

Being registered land as is evidenced by Certificate of Title No. 776618.

Parcel 24:
36 10th Street North (PID No. 27-029-24-21-0031) (Orpheum)

Lot 4, Auditor's Subdivision No. 126, according to the recorded plat thereof, and situate in Hennepin County, Minnesota.

Abstract Property

Parcel 216 (368): **State Theatre**

809 Hennepin Avenue (PID No. 27-029-24-12-0123)

Lot 2, Block 1, LaSalle Plaza, Hennepin County, Minnesota:
Together with easements, covenants and restrictions benefitting said Lot 2 and burdening Unit 1, Condominium No. 640, LaSalle Plaza-YMCA Condominium, Hennepin County, Minnesota, under that certain Reciprocal Easements, Covenants and Operating Agreement entered into as of May 31, 1989, by LaSalle Plaza Limited partnership and The Young Men's Christian Association of Metropolitan Minneapolis, recorded August 15, 1989, as Document No. 5563764 in the office of the County Recorder, Hennepin County, Minnesota.
Together with easements, covenants, and restrictions benefitting said Lot 2 and burdening Lots 1, 3, 4, and 5, Block 1, LaSalle Plaza, and Units 2, 3, and 4, Condominium No. 640, LaSalle Plaza-YMCA Condominium, Hennepin County, Minnesota, under that certain Declaration of Reciprocal Easements, Covenants and Operating Agreements made as of May 31, 1989, by LaSalle Plaza Limited Partnership, recorded August 15, 1989, as Document No. 5563766 in the office of the County Recorder, Hennepin County, Minnesota, as amended by Amended and Restated Declaration of Reciprocal Easements, Covenants and Operating Agreements made as of September 1, 1991, by LaSalle Plaza Limited Partnership, recorded December 6, 1991, as Document No. 5852481 in the office of the County Recorder, Hennepin County, Minnesota.

Abstract Property

Parcel 215 (367): Pantages Theatre and Stimson Property

700 Hennepin Avenue (PID No. 22-029-24-43-0062)

Lot 7, except that part taken for widening of North Seventh Street, all of Lot 8 and the Northeasterly 42.67 feet of Lot 9, Block 4, Hoag & Bell's Addition to Minneapolis, according to the recorded plat thereof, and situate in Hennepin County, Minnesota.

Abstract Property

Subject to completion of a vertical Registered Land Survey to be completed in 2005.

EXHIBIT D
PRELIMINARY — SUBJECT TO REVISION

STATE , ORPHEUM AND PANTAGES THEATRES: CAPITAL IMPROVEMENTS NEEDS

Improvement Description	Location	Estimated Cost
Orpheum Theatre		
Structural Improvements		
Reseal membrane over auditorium	Auditorium	$ 40,000
Resurface beams above stage	Stagehouse	$ 50,000
Rebuild/Rewire Marquee	Marquee	$ 15,000
Installation of Permanent Bars	Lobby	$ 85,000
Repair of house left alley way	Alley	$ 20,000
Resurface Stage Floor	Stagehouse	$ 6,000
HVAC Control Improvements	Auditorium	$ 30,000
Replace Carpet in Dressing Rooms	Stagehouse	$ 10,000
Tera Cotta and brickwork	Exterior	$ 150,000
Auditorium Seats	Main floor and balcony	$ 50,000
Mechanical / Electrical / HVAC Improvements		
Improve box office ventilation	Box office	$ 8,000
Improve exhaust capability	Auditorium and Stage	$ 500,000
Recommissioning Study	Entire Theatre	$ 50,000
Replace steam valves	Basement	$ 10,000
Repair condensate lines	Various locations	$ 30,000
Exhaust for painting/welding	Basement	$ 5,000
Plumbing		
Fix backstage Drainage Problem	Back Stage	$ 3,000
Equipment Needs		
Other		
Replace carpeting	Throughout theatre	$ 200,000
Storm water pipe (heat tape)	Basement	$ 1,500
2 pair of masking legs	Stage	$ 4,000
Two border curtains	Stage	$ 4,000
State Theatre		
Mechanical/ Electrical/ HVAC Improvements		
Light Board	Stage	$ 10,000
Equipment Needs		
New Pit Chairs	Pit	$ 2,500
New Spot Line Rope	Jump Bridge	$ 1,500
Chairs backstage	Stage	$ 8,000
Tables	Backstage	$ 1,000
Other		
Hot water heaters (2)	Backstage	$ 10,000
Pantages Theatre		
Marquee improvements	Exterior	$ 150,000
Repair stage flooring	Stage	$ 27,000
Marley dance floor	Stage	$ 10,000
Resurface Alley Overhang	Exterior	$ 10,000
Grand Total		**$ 1,501,500**

Goal Category	Number of Total Events	Number of Broadway/First Class Events	Number of Total Patrons	Number of Patrons with more than Nominal Ticket Price	Penalty for Failure to Achieve Goals
Aspirational Goals	400 Events (rolling 3-year average)	140 Events (17.5 weeks) (rolling 3-year average)	500,000 Patrons (rolling 3-year average)	400,000 Patrons (rolling 3-year average)	• Commercially reasonable efforts only- no Financial or Default Penalties
Penalty Goals	350 Events (rolling 3-year average)	100 Events (12.5 weeks) (rolling 3-year average)	375,000 Patrons (rolling 3-year average)	325,000 Patrons (rolling 3-year average)	• $1,000 for each event under 350 • $1,000 for every 1,000 paid under 325,000 • No Default Penalties
Default Requirements	180 Events (rolling 4-year average)	60 Events (7.5 weeks) (rolling 4-year average)	192,500 Patrons (rolling 4-year average)	165,000 Patrons (rolling 4-year average)	• Probation for one year following first failure to achieve Default Requirements. • Event of Default if the following year (standing alone) fails to meet Default Requirement minimum levels.

1. All three-year averages are subject to force majeure exception.
2. HTT shall meet the requirements for the Penalty Goals in all categories and failure to meet the goals will impose the financial penalties listed in the far right row entitled Penalty Goals.
3. CCE will provide a Guarantee for the payment of all sums due in the Penalty Goal category, and failure to meet the Default Requirements for the minimum 60 events required in the category of Broadway/First Class Events will trigger payment of the Letters of Credit listed in 5(a), (b) and (c). In the event such Letters of Credit are paid upon the City's demand, CCE shall have no further obligations under the Guarantee.
4. Event shall be defined as a First Class Performing Arts Attraction or an event in 13(c) of the Term Sheet for the purpose of defining the number of Total Events. For the purpose of defining Broadway/First Class Events, Event shall be defined as First Class Performing Arts Attractions.
5. The financial penalties are to be CPI adjusted.
6. The City will allow the requirements for the Penalty Goals to be lowered if the Proposers provide an index of comparable market activity which is calibrated to those goals, and which is reasonably acceptable to the City.

Attachment B – Joint Response Term Sheet

(1) The current tax-exempt theatre bonds for the Orpheum and Pantages Theatres will be converted into taxable bonds with a term of thirty years. Clear Channel and HTG will assume all costs of this bond conversion, as well as any related costs of the transaction, including negative arbitrage.
(2) Historic Theatre Group, Ltd., now jointly owned by HTG's current owners, Fred Krohn and Lee Lynch, and by CCE, will enter into a Lease (the "Master Lease") with the City. This Lease will be the only agreement related to the Theatres which the City will have to monitor. The proposed terms of the Master Lease are as follows:

(a) The term of the Master Lease will be equal to the term of the new taxable bonds.
(b) The Lease payments for the Master Lease will be equal to the annual debt service on the new taxable bonds.
(c) The City and HTG will negotiate terms for the Master Lease which provide assurances to the City that the Theatres will be well-maintained in a manner equal to the other first class theatres, and will be aggressively booked for the term of the Master Lease. The criteria will be easily ascertained, and will require minimal oversight by City staff.
(d) All City contracts relative to the Theatres, including the TicketMaster Agreement, will be transferred to HTG, and all moneys generated by the Theatres will become the sole property of HTG and will not be considered City revenues subject to audit as a part of the City of Minneapolis audit.
(e) Clear Channel Entertainment will join with Historic Theatre Group, Ltd. In guaranteeing the financial terms of the Master Lease, either by an annual letter of Credit or via another form of security as negotiated by the parties.
(f) HTG will, after entering into the Master Lease, enter into a SubLease of the Theatres with Hennepin Theatre Trust. However the Master Lease between HTG and the City will remain in place for the entire term of the new taxable bonds. This Master Lease will be the City's firewall, protecting it from any potential of financial exposure even if Hennepin Theatre Trust should default on the SubLease.
(g) The Team Members envision that Hennepin Theatre Trust will assume fee ownership of the Theatres once the Master Lease obligations have been fulfilled and the bonds fully paid off. Both HTG and CCE will be available to continue to work with the Trust should that continued involvement best serve the Theatres.
(h) In the event that Hennepin Theatre Trust does not remain as the sublessee for the entire term of the SubLease, then HTG and the City will work to find a mutually-acceptable nonprofit to fulfill the Trust's responsibilities under the SubLease. In no case, however, will fee ownership of the Theatres pass to any entity (including Historic Theatre Group and Clear Channel) other than a 501©(3) not for profit entity.

The Incumbent Team's proposed contract terms and conditions are designed to make City oversight of its investment in the theatres clean and simple, and to take the City out of the financial oversight of the Theatres. Rather, the City's responsibilities will consist of collecting the payments due under the Master Lease from Historic theatre Group, inspecting the theatres to ascertain that they are being maintained to a first class theatre standard, and verifying that the Lessee is meeting the Master Lease's requirements for event activity. The City will thereby preserve its objectives in developing the Theatres, but shed any financial liability for their operation or maintenance.

Attachment C – Theatre Goals and Criteria

A. The positive economic impact of the theatres on Minneapolis will be supported and maximized.

B. The Theatres will be preserved as a long-term legacy for future generations.

C. The City will ensure accountability in the operation of the theatres while minimizing city involvement in day to day operations.

D. The City supports continued development of the Hennepin Theatre District

E. The City supports and encourages private sector fundraising to meet existing debt and the capital improvements the theatres will need.

In light of the preceding goals, it was determined that the successful proposer's response should therefore:

a. support a diversity and frequency of programming in order to maximize the economic impact of the Theatres on the City of Minneapolis;
b. demonstrate a focus on preservation of the theatres as a long-term legacy for future generations of Minneapolis citizens;
c. seek to minimize the operational involvement of the City in the Theatres, while remaining accountable to the City regarding booking activity, long-term maintenance, and governance;
d. provide active leadership for the continued development of the Hennepin Theatre District;
e. establish the capability to meet the Theatres' current and longer-term debt and capital improvement needs through operating and presenting profits, user fees, and other private funding; and
f. propose a strategy for a community arts education and outreach program.