January 13, 2005

Ground Lease
Arts Center Stage

Performing Arts
Long Center for the
together with minimum funding thresholds effective August 9, 2002 to commence construction efforts 9, 2003 with right of possession having been granted

Key terms included commencing construction by February 2001

Operating under the First Amendment executed May 30,

( the Long Center)

Briefing concerning new proposal from Arts Center Stage

Ground Lease

Arts Center Stage
Proposed Changes

- Goal is to construct the Center given new financial requirements and with new financing environment, but on a modified scale.

- Changes in the ground lease

- Arts Center Stage now requesting three major

3
remaining non-expendable

$2.5 would also be available for emergency use, with $7.5

the center, as long as the lease requirements were met;

would go to pay O&M expense, regardless of who operates

leave the total O&M reserve at $10 million; interest income

and financing to comprise the 70%

purposes to some combination of cash, committed pledges,

requirement of 70% cash on-hand for construction

Construction funding requirements to change from current

facilities

Modification of number and capacity of halls and internal

Updated Changes
Overall Reasonebleness

Anticipated Cash Flow During Construction

Pro Forma of Post-Construction Operations

Review of Pledges

Scope of Review
No Review of Past or Current Operations

Prior to Construction

Will be confirmed after 3rd party review and

Pledges Not Confirmed with Donors

Prior to Construction

Independent 3rd party review approved by City

Construction Cost Estimates Not Studied

Review Limitations
The majority of these donations are a part of the Long Center's $40.5 million endowment pledge currently designated to establish an endowed current capital campaign, with part of one outstanding pledges from donors totaling nearly $40.5 million. As of October 31, 2004, the Long Center had...
Based on this review, the outstanding pledge balance, and the
donation/pledge process utilized by the Long Center appear reasonable

The City will confirm and approve major donor pledges prior to construction

only 2% of the total # of donors

The vast majority of the Long Center's pledges are from a few established

unusual wording or conditions included in the pledge form

Based on previous non-profit auditing experience, we did not see any

Our review covered over 96% of the total pledges

gifts were greater than $100,000

We reviewed signed pledge statements/agreements for all donors whose

Pledges
categorizes and compares the total G&A cost per square foot to other PACs.

We also analyzed expenses based on a % distribution among certain

forma for its baseline year of 2008-09

These line items make up 92% of the total revenue on the Long Center’s pro

and fundraising

Presenting (Ticket Sales), Facility Ticket Surcharge, Investment Income,

The specific revenue line items we reviewed are Rental Income, Other

company involved in the special events industry

the industry outlook on future, as well as obtaining information from a local

We also reviewed a recent survey done by HSV International on PACs and

as well as additional financial-related information

Our analysis included reviewing other performing arts centers’ information,

construction operations for reasonableness

We analyzed the major line items of the Long Center’s pro forma for post-

Pro Forma
To help with this discussion, using some assumptions, we have made an
additional comparison to the Houston rates with some of their additional
charges included in their total rent.

While we cannot determine a final reasonableness of the rental rates, based on
the information we do have, these rates do not appear outlandish or
unreasonable, as they are not the highest rates in our analysis, as seen on the
following slide.

Because of the nature of these additional charges and the varying types from
each PAC to another, it was not possible to make an apples to apples
comparison without additional in-depth analyses.

The Long Center includes those typical additional charges in its base rental
rate, while the base rental rate is higher than other PAC's, including UT's Bass Hall.

Rental Income - Rates

Pro Forma - Revenues
Comparison of Rental Rates

Pro Forma - Revenues

(Using Rental Rate for Initial Performance Only for One Venue)

However, this comparison does not adjust for the differences in types of facilities, square footage, seating capacity, etc.

Note: For this comparison, lease rental rates were adjusted for inflation and the cost of living for each respective location.
Pro Forma – Revenues
Additional Comparison to Houston Rental Rates
(including some of Houston’s additional rental-related charges)
Based on the information from the Long Center and Bass Hall, increasing the # of performances for any, or all of these Resident Companies would appear reasonable.

<table>
<thead>
<tr>
<th></th>
<th>Austen Ballet</th>
<th>Austen Opera</th>
<th>Austen Symphony</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>25</td>
<td>28</td>
<td>Bass Hall:</td>
</tr>
<tr>
<td>6</td>
<td>14</td>
<td>20</td>
<td>Opera and ballet compared to the approximate number of current performances at UT’s.</td>
</tr>
<tr>
<td>17</td>
<td>27</td>
<td>44</td>
<td># of Estimated</td>
</tr>
<tr>
<td>Approximate # of Performances</td>
<td>Current Bass Hall</td>
<td>Long Center</td>
<td>Rental Income - Usage</td>
</tr>
<tr>
<td>Decrease / Increase</td>
<td></td>
<td></td>
<td>Pro Forma - Revenues</td>
</tr>
</tbody>
</table>
Based on our review, each element related to ticket sales appears reasonable.

- \# of attendees (capacity) *
- Ticket price *
- \# of total performances *
- Present's events we analyzed:
  - To analyze ticket sales from "Long Center"

Pro Forma - Revenues
The Long Center's investment income projections appear reasonable.

2007-2012 is 5.05% average earnings for years, based on the Congressional Budget Outlook's Economic.

Projected income of $10 million endowment, using a rate of return of 5%.

The Long Center has projected earning $500,000 on the investment income.

Investment income other sources.

The Long Center's are reasonable when compared to other facilities. Ticket surcharges are common charges of PACS.
Funding

Other PACs contributions for 2003 were as follows (excluding capital contributions):

<table>
<thead>
<tr>
<th>Contributions</th>
<th>Approximately 2003 O &amp; M</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7,500,000</td>
<td>PA</td>
</tr>
<tr>
<td>$300,000</td>
<td>Houston, TX</td>
</tr>
<tr>
<td>$650,000</td>
<td>Ft. Worth, TX</td>
</tr>
</tbody>
</table>

While we cannot provide a conclusion as to the reasonableness of the contribution source for the respondents, from the PAC survey we reviewed, Individual contributions was the 2nd largest funding.

Pro Forma - Revenues

Income in the pro forma, the Long Center's amounts are within the range of other PACs reviewed.
Center's expense distribution among categories appears reasonable because non-profits have some flexibility in how they categorize expenses, long.

<table>
<thead>
<tr>
<th>%</th>
<th>%</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>7%</td>
<td>Fundraising</td>
</tr>
<tr>
<td>15%</td>
<td>20%</td>
<td>Management and General</td>
</tr>
<tr>
<td>26%</td>
<td>22%</td>
<td>Art fees</td>
</tr>
<tr>
<td>54%</td>
<td>51%</td>
<td>Program expenses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Long Center</td>
</tr>
<tr>
<td>Average or other PACS</td>
<td>Overall expenses</td>
<td></td>
</tr>
</tbody>
</table>

The percentage distribution of expenses was as follows:

- We categorized expenses in 4 categories: Program expenses, artist fees, management and general, and fundraising.
- We compared the Long Center expenses to other PACS.
- Overall expenses.
A chart of the results of this analysis is on the following slide.

We calculated the Long Center total O&M costs at $35.46 per square foot. Over the last 10 years, costs have increased from an average of $58.74 per square foot. The cost per square foot for PACS varied greatly. Our results show a total O&M PACS used in the comparison. We also adjusted our results for inflation and cost of living for each of the other O&M cost per square foot. In order to make our comparison, we adjusted the Long Center's occupancy.

Pro Forma - Expenses
Total 0 & M Cost/Sq Ft
Pro Forma - Expenses
Our calculation is on the following slide:

Long Center and operations during construction additional $22.75 million to cover the construction of the Long Center needs to raise an estimated that the Long Center needs to raise.

Based on the information we reviewed for the contributions remaining amounts needed to be raised to date, we projected the cash flow and determined the.

Through the construction period of fiscal years 2005 – 2007 the Long Center has developed a cash flow projection.

Cash Flow Projections
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Construction Cost</td>
<td>$60,000,000</td>
</tr>
<tr>
<td>Less: Construction Amount Capitalized</td>
<td>(3,800,000)</td>
</tr>
<tr>
<td>Remaining Cost of Construction</td>
<td>$56,200,000</td>
</tr>
<tr>
<td>Endowment</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Operations During Construction</td>
<td>4,150,000</td>
</tr>
<tr>
<td>Outstanding Pledges and Related Income</td>
<td>11,400,000</td>
</tr>
<tr>
<td>Less: Amount Not Available during Construction</td>
<td>(5,000,000)</td>
</tr>
<tr>
<td>Total Cash, Investments, Pledges Available</td>
<td>$47,600,000</td>
</tr>
<tr>
<td>Additional Needed</td>
<td>$22,750,000</td>
</tr>
</tbody>
</table>

(Based on October - November 2004 Information)
more each year than they raised in 2004, which was $4.4 million. They will need to raise approximately $7.5 million in each of the next 3 years, or 70-75% during that period. Additional pledges are needed to cover construction and operations. Cash flow projections indicate that approximately $22.75 million independent 3rd party prior to construction. It will be reviewed by the board.

Most aspects of the pro forma appear reasonable. Pledges to date and collectability appear reasonable.

Overall Reasonableness
<table>
<thead>
<tr>
<th>Requirements for Funds to Commence Construction</th>
<th>70% cash and financing approved by COA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2001</td>
</tr>
</tbody>
</table>

**Timing of Construction and Mix of Facilities**

<table>
<thead>
<tr>
<th>Facilities</th>
<th>2005</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rolling Hall - 250 seats</td>
<td>Now 240 seats</td>
<td>Commitment to build 700-seat intermediate theater</td>
</tr>
<tr>
<td>Now phased, subject to fund raising</td>
<td>Commitment to build 2,000-seat main hall</td>
<td>Commencement to commence in 2005</td>
</tr>
<tr>
<td>No Change</td>
<td>Commencement to commence in 2005</td>
<td></td>
</tr>
</tbody>
</table>

**Summary of Lease Changes**
## Construction Cost and O&M Feasibility Report

### Construction of Construction

<table>
<thead>
<tr>
<th>Report approved by City of Austin</th>
<th>Report approved by City of Austin</th>
</tr>
</thead>
<tbody>
<tr>
<td>of lease changes</td>
<td>of lease changes</td>
</tr>
<tr>
<td>Report due within 60 days of approval</td>
<td>Report due prior to commencement of construction</td>
</tr>
<tr>
<td>2005</td>
<td>2001</td>
</tr>
</tbody>
</table>

### Operating Reserve Requirement

<table>
<thead>
<tr>
<th>Successor as nonexpendable trust</th>
<th>Successor as nonexpendable trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7.5M available to Long Center</td>
<td>$7.5M available to Long Center</td>
</tr>
<tr>
<td>COA has lien $2.5M</td>
<td>COA has lien on total amount</td>
</tr>
<tr>
<td>$10M in total when CO is granted</td>
<td>$10M on hand when CO is granted</td>
</tr>
<tr>
<td>2005</td>
<td>2001</td>
</tr>
</tbody>
</table>

## Summary of Lease Changes