



December 4, 2017

The Honorable Nicholas A. Mattiello  
Speaker of the House of Representatives  
State House  
82 Smith Street  
Room 323  
Providence, RI 02903

The Honorable Dominick J. Ruggiero  
President of the Senate  
State House  
82 Smith Street  
Room 318  
Providence, RI 02903

Dear Speaker Mattiello and President Ruggiero,

Beginning in January 2017, Rhode Island Commerce Corporation (“Commerce”) and the PawSox began holding discussions around the team and Pawtucket’s proposal to build a new baseball stadium in downtown Pawtucket. Over the course of several months, Commerce worked with both parties and gave guidance regarding a potential deal structure involving a substantial commitment by the team, along with contributions from the city and the state.

As the representative of the Commerce team, I was granted access, subject to a non-disclosure agreement, to certain confidential non-public financial data and materials by the team in November 2017. I was permitted to review those data and materials at McCoy stadium, along with being given access to the team’s Chief Financial Officer and General Counsel during that review and for follow up clarification as necessary. I was also given the opportunity to confer with the State’s Auditor General regarding his observations. This letter summarizes Commerce’s observations based on that review.

### **Confidential Information Provided**

In addition to information provided to the public during the legislative hearings, the team provided audited financial reports for the partial year February 20, 2015 – December 31, 2015 and full year ended December 31, 2016, as well as unaudited 2017 financial results. Management indicated that prior to the current ownership group’s acquisition of the team, audited financials had not been produced. The team was acquired by the current ownership group on February 20, 2015.

### **Summary Observations**

Attendance: The team has suffered attendance declines since the mid-2000s peak; this decline appears to have been stabilized in 2017 with a small increase over 2016; however, attendance levels are down approximately 33% from where they were at the peak. Despite the team’s declining attendance over the last decade, International League data provided by the team shows that league-wide per game attendance has climbed nearly 9% over that same period when the negative impact of the PawSox decline is



excluded. Including PawSox attendance, overall league attendance has increased more than 5% over that same period. Additionally, the team provided a survey of all 16 AAA and AA ballparks that have been opened since 2007. This data suggests that new ballpark attendance by the third year of operation was on average 97% greater than attendance in the final year of the old ballpark.

PawSox Financial Structure: The team's financial structure currently appears to be stable. Due to non-cash items, primarily goodwill amortization related to the acquisition of the team by the new ownership group, the team reports negative net income for GAAP purposes, which could continue for the next few years until goodwill is fully amortized. However, the team had positive operating cash flow in 2016 and positive EBITDA, adjusting for unusual items (heavily related to the process surrounding the new ballpark proposal), in 2015 and 2016. The financial disclosure did include an instance of debt covenant non-compliance in 2016, which was remedied during 2017.

### **Summary Conclusions**

While the team currently generates modest positive cash flow, material new financial liabilities (e.g. Series A debt service) would require additional cash flow (e.g., from increased attendance or other new revenue sources such as naming rights) beyond what the team currently achieves. Based on the team's operating assumptions and its anticipated attendance increase, the Series A payment obligation appears to be supportable from a cash flow perspective.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Saglio", is positioned above the typed name.

Jesse Saglio  
Managing Director, Head of Investments