



City of Seattle

# Summary of the Proposed Seattle Arena Development Project

Select Committee on Civic Arenas - September 2018

## Arena

- State-of-the-art facility for music, entertainment, sports; to accommodate 17,300 (hockey), 18,350 (basketball), and between 16,940 and 19,125 (concerts).
- Historic roofline preserved; meet LEED Gold rating (or equivalent).
- 39-year lease term with two, eight-year renewable options (total of 55 years).
- Use commercially-reasonable efforts to pursue NHL and NBA;
  - Use commercially reasonable efforts to acquire rights to use “Seattle Sonics/Supersonics” name.
  - Sports teams will maintain corporate headquarters in Seattle.
  - Sports team will sign a non-relocation agreement (for NHL, non-relocation agreement for initial 39-year term of the Lease).
- ArenaCo is responsible for all costs of improvements/enhancement required by NBA, NHL or any other third party.
- City will not negotiate with any entity other than ArenaCo regarding renovation of the Arena, or solicit/entertain bids or proposals to do so for Lease Term; City will not provide financial support, benefits or incentives for construction of any live entertainment venue more than 15,000-seat capacity within the City.

## Financial

- Current project cost estimate is \$700 million; construction of tenant improvements will be financed privately.
- All costs and potential cost overruns of construction and arena operations are the responsibility of ArenaCo.
- City will receive annual rent payment of \$2,810,662 to reflect revenue generated by KeyArena, 1<sup>st</sup> Ave N Parking Garage, and campus sponsorship rights (“Baseline Rent”).
- ArenaCo will receive annual abatement of the Baseline Rent (\$350,000) in first 10 years of operation.
- City entitled to baseline tax revenue (Baseline Tax Guaranty). ArenaCo will reimburse City should tax revenue from KeyArena and parking garages fall below the Baseline Tax Threshold of \$2,242,419, for:
  - City’s portion of Sales Tax revenues directly attributable to Arena operations;
  - B&O Tax revenues directly attributable to Arena operations;
  - City’s portion of Leasehold Excise Tax revenues attributable to Arena operations;
  - Admissions Tax revenue attributable to Arena operations; and
  - Commercial Parking Tax and City’s portion of Sales Tax revenues attributable to the 1st Ave N Parking, Fifth Ave N Parking, and Mercer St Parking Garages.
- City’s guaranteed revenues, including Baseline Rent and the Baseline Tax Threshold will be adjusted annually for escalation (with no negative adjustments), to be the lesser of three percent (3%) or CPI (US Dept of Labor Statistics Consumer Price Index for Seattle-Tacoma-Bremerton).
- City acknowledges it will receive additional consideration and financial benefit from ArenaCo’s investment (e.g., construction and operation risks and potential cost overruns; costs for utility, security, routine maintenance and insurance; historic preservation of landmark sites; funding of arts; granting 14 free-use days per year; transportation and community benefits; technology improvements; potentially attracting the NHL and NBA).

In consideration of these considerations and financial benefits, the rent will be subject to an annual rent adjustment as described below:

- Annual Rent Adjustment is calculated based on net revenue above the Rent Adjustment Threshold; equal the amount of tax and facility revenues City receives from current Arena and business operations. The Rent Adjustment is equal to City revenues in excess of the Rent Adjustment Threshold from:
  - Fifth Ave N and Mercer Street Parking Garages
  - Seattle Center Sponsorship Rights
  - City's portion of Sales Tax and Leasehold Tax related to operations
  - B&O Tax related to operations
  - Commercial Parking Tax and City's portion of Sales Tax for 1<sup>st</sup> Ave North, Fifth Ave North and Mercer St. Parking Garages
  - Admissions Tax revenue
- Incremental amounts will be aggregated annually. In first 10 years, 25% of total will be allocated to the City and 75% to ArenaCo. For each year thereafter, 50% to City and 50% to ArenaCo. For all years of the Lease Term, ArenaCo's Annual Rent Adjustment allocation will include 100% of Admissions Tax revenue above the Rent Adjustment Threshold.
- ArenaCo will spend at least \$1 million annually for capital improvements during the first 10 years; and no less than \$2 million annually for the next 29 years.
  - Years 21-30, ArenaCo commits (plus minimum capital commitments noted above) no less than \$50 million on capital improvements (a condition precedent for granting the first 8-year extension).
  - Years 31-47 (plus minimum capital commitments noted above) no less than \$50 million (a condition precedent for granting the second 8-year extension).
- ArenaCo will reimburse City up to \$3.5 million for reasonable costs incurred by the City to develop, execute and perform the MOU, the transaction (and related) documents.
- ArenaCo will pay all permitting and SEPA expenses, which expenses will not be subject to the \$3.5 million cap.

## Risk Mitigation and Maintenance

ArenaCo will:

- Assume the risk of cost overruns during construction including the risk of additional costs due to unknown environmental conditions.
- Be responsible for operations and maintenance of the facility over the life of the Lease; assume the risks and costs of operating and maintaining the arena.
- Maintain the facility to an operating standard suitable for occupancy as a home facility by NHL and NBA teams, consistent with standards of quality and performance comparable to “first-class facilities” that include the United Center in Chicago, the TD Garden in Boston, and the Pepsi Center in Denver.
- Have a Guaranteed Maximum Price construction contract to ensure costs will not escalate beyond ArenaCo's ability to fund the project.
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- Have both equity and the required loans in place before construction commences. The balance of the equity required to complete the project beyond what ArenaCo will have already spent will be placed in escrow for the benefit of the project, along with a “Guaranteed Maximum Price” Bid from their contractor, executed loan documents, and a NHL Consent Letter prior to commencing demolition / excavation work on KeyArena.
- Fund unforeseen costs by providing an additional City-controlled contingency account above and beyond the developer contingency.
- Agree that the City/Lender/ArenaCo will each have representatives managing and monitoring construction costs during development and construction.

## Transportation

- ArenaCo will contribute \$40 million to a Transportation Fund, administered by the City.
- Separate from SEPA/EIS, a North Downtown Mobility Action Plan (MAP) has been prepared at ArenaCo's expense to support transportation improvements for the north downtown neighborhoods. The Transportation Fund will help pay for select MAP projects, including those that improve network connectivity and overall traffic in the area. City is to seek other public/private partners and funding for the purposes of advancing the objectives of the Transportation Fund.
- City has completed an Environmental Impact Statement (EIS) analyzing potential impacts and identified alternatives, including a comprehensive traffic and historic resources impact analysis and associated mitigation actions. ArenaCo will fund the necessary transportation mitigation, but not with Transportation Fund monies.

## Seattle Center Integration

- The Integration Agreement ensures design, construction, and operation of Arena integrates into and benefits the overall Seattle Center campus.
- The goals and principles upon which the Integration Agreement are based are (1) People First, (2) Place-Making, Not Just a Project, and (3) Partnership for Success.
- Four (4) Blue Spruce tenants will be relocated at Seattle Center; two remaining tenants will self-relocate. Pottery Northwest is remaining in the Bressi Garage.
- ArenaCo will:
  - Offer employment to current workers and employees of contractors working at KeyArena upon opening of the Arena;
  - Pay \$1.5 million in consideration of the City's need to relocate the Skate Park, Campus Maintenance Facility, public restrooms and other amenities. (The Maintenance Facility will move to the Next 50 Pavilion on Campus. A potential site has been identified for the Skate Park relocation.)
  - ArenaCo will pay \$500,000 for relocation of displaced tenants, other than the Skate Park and Pottery Northwest; and will assume the City's lease with the Seattle Storm or enter into a new agreement by opening game date.

## Community Benefits

Under these agreements, ArenaCo will:

- Provide community benefits as endorsed by community organizations to foster equity and social justice and provide benefits to those organizations affected, including support for programs and services for youth, arts, sports, music and culture.
- Provide \$10 million in cash and in-kind donations to YouthCare, a non-profit organization serving homeless youth. Establish a Community Fund to provide an additional \$10 million (with a minimum of 50% in cash) for organizations that serve communities around Seattle Center and the greater Seattle area.
- Provide \$500,000 for a marketing program to mitigate construction impacts.
- Invest at least \$3.5 million in public art:
  - Phase 1: \$1.75M in permanently-sited public art created for the Arena.
  - Phase 2: \$1.75M in arts, music and other cultural programming of public spaces, and engaging resident and community arts organizations in the area. \$175,000 annual installments over 10 years, administered by the City's Office of Arts and Culture
- Make a \$2.5 million Mandatory Housing Affordability payment, including (1) an initial payment per the required MHA formula, and (2) the remainder within two years of the Arena's opening.
- Provide the City with 14 use days per year at the Arena at no cost for Seattle/King County Health Clinic, Bumbershoot, and other community events.
- Hire and maintain a full-time community liaison to run day-to-day outreach operations, coordinating with local community organizations, during both the development and the operation of the Arena. (Community Liaison has been hired.)
- Provide opportunities for patrons of all income-levels by providing seats at a range of price points. ArenaCo will collaborate with anchor tenants and community partners to identify regular opportunities to make reduced-priced tickets available.
- Employ hiring terms consistent with the City's Priority Hire Ordinance, Labor Harmony Agreement, and the City of Seattle's Women and Minority Owned Businesses Construction Public Works Inclusion Plan.