SUMMARY and FISCAL NOTE*

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1. BILL SUMMARY

Legislation Title: AN ORDINANCE relating to the Seattle Monorail; approving a letter of agreement between Seattle Monorail Services, LLC and the Seattle Center Department; authorizing the Seattle Center Director to negotiate and execute an amendment to the Monorail Concession Agreement previously authorized by Ordinance 124674, on terms consistent with the letter of agreement, which include but are not limited to implementation of One Regional Card for All ("ORCA") smartcard as a form of fare payment on the Monorail, alignment of the Monorail fare structure with ORCA and amendment of other fare types, establishment of a triennial schedule for future inflation based fare adjustments, extension of the term of the concession agreement through 2034, and extension of the concessionaire's right to pursue Monorail system non-fare revenues through 2039 conditioned upon concessionaire making privately-funded improvements to the Westlake Station; and ratifying and confirming certain prior acts.

Summary and background of the Legislation: This legislation authorizes the Director of Seattle Center to amend the concession agreement granting Seattle Monorail Services (SMS) the right to operate and maintain the monorail system at Seattle Center authorized by Ordinance 124674. Seattle Center and SMS have completed a Letter of Agreement (LOA) addressing the material terms for an amended and restated concession agreement. The amended and restated agreement would incorporate the amended terms of the LOA into the current concession agreement and create one complete agreement rather than an agreement with free-standing amendments. Consistent with the LOA, the amended and restated concession agreement will: (i) establish the terms under which SMS will implement the One Regional Card for All (ORCA) smartcard as a form of payment on the monorail, (ii) establish SMS's commitment to make a capital investment between $3.5 Million and $12 Million for station improvements to improve monorail capacity, accessibility, and connections to other transit systems at the Westlake and Seattle Center Stations, and (iii) amend the Monorail fare categories to align with the regional ORCA card fare categories, (iv) allow for creation of arena event fares, and (v) establish a schedule and method for fare adjustments. The amended agreement would also extend the term for SMS's operation and maintenance of the monorail through 2034 while the previous agreement's term ran through 2024 with the option of a mutually agreed upon extension through 2034. Additionally, subject to certain conditions, SMS would receive a term extension for just the marketing/sponsorship aspects of the monorail through 2039.

Background: The Seattle Center Monorail provides a public transportation link between downtown Seattle and Seattle Center, carrying more than two million passengers annually. The monorail system includes two trains, two stations, and the elevated guideways and supports on which the trains travel. Originally constructed for the 1962 Seattle World's Fair, the original route and downtown station were modified for the construction of Westlake Center, and in 1987, the City and Westlake Center Associates Limited Partnership entered into a fifty-year monorail Operating and Easement Agreement under which the City utilizes the Westlake Center Monorail Station for a fee.

Prior to 1994, Seattle Center operated the monorail and hired Metro to perform the maintenance functions for the monorail system. In 1993, Seattle Center issued a request for proposals for a concessionaire to maintain and operate the monorail. Seattle Monorail Services was selected as the concessionaire, and in May 1994, the City Council passed Ordinance 117123 authorizing the execution of the Monorail Concessions Agreement with SMS. SMS began operating the monorail system in June 1994. During its tenure as concessionaire, SMS implemented a number of service improvements, increased hours of operation, managed, in conjunction with Seattle Center, an extensive renovation of the monorail trains, and maintained a positive financial return for both SMS and the City. That agreement expired in 2014.

In 2013, Seattle Center issued a Request for Proposals for operation and maintenance of the Seattle Monorail and received three responses. After an extensive review of the proposals, SMS was unanimously selected as the preferred provider and a new concession agreement was drafted. That agreement was approved by the City Council in 2014 via Ordinance 124674 after a provision was added for the concessionaire to utilize the One Regional Card for All as a fare payment option on the monorail and that should the use of the card be found to have a material and adverse operating and/or financial impact, the concessionaire and the City would enter into good faith negotiations to reasonably address the impact by amendment to the Agreement.

In June of 2015, Seattle Center reported back to Council on the financial, administrative, and operational implications of ORCA use on the monorail and noted the ultimate decision did not rest with the City but with the ORCA Agencies, one of whom must be willing to sponsor the monorail as an affiliate transportation service, and the ORCA Joint Board, which would need to unanimously accept the City of Seattle as an affiliate organization. Seattle Center was further directed by Council to work with the Seattle Department of Transportation to perform a more extensive analysis of the ridership and financial impacts of ORCA acceptance. As part of that effort, in February of 2016, the City hired a consultant to conduct this deeper analysis. The final report, completed by WSP USA (formerly WSP|Parsons Brinckerhoff) in June 2017, was the culmination of a 12-month process of evaluating existing monorail ridership patterns and fare categories, an assessment of rider characteristics on the monorail and on relevant bus routes, and a review of ORCA fare system attributes.

The report, completed in June 2017, estimated there would be revenue impacts. One set of impacts would increase ridership and revenue as riders switched from existing bus routes to the monorail. Conversely, there would also be impacts such as changes to the existing monorail fare categories, sharing of fare revenues when riders transfer from other modes to the monorail, increased costs related to being an ORCA affiliate, and one-time equipment and start-up costs associated with implementing the use of ORCA card and being part of the ORCA system.

The report also estimated during the initial years of ORCA acceptance, revenue could initially decrease, but could increase over time. Seattle Center postponed a regularly scheduled fare increase pending the result of this study in order to evaluate how fares could support ORCA implementation. City staff also worked directly with King County Metro to facilitate becoming an Affiliate Agency in order to be able to accept the ORCA products on the monorail. To support this process, the City appropriated $500,000 in 2018 to support ORCA implementation and start-up costs.

Proposed substantive revisions to the Concession Agreement are outlined in the LOA:

Term: The current agreement has an initial term which runs through 2024 with a mutually agreed upon extension through 2034. The proposed amendment extends the initial term through 2034. Additionally, subject to conditions being met related to financing of the Westlake Improvements, an additional five year "Non-Fare Revenue Term" would be allowed during which SMS would retain the right to continue marketing/sponsorship of the monorail and receive the revenue, even if it is no longer the operator of the monorail (the "Non-Fare Revenue Term"). The Non-Fare Revenue Term is designed to enable SMS to amortize the debt from the capital improvements.

ORCA: In the fall of 2019, SMS will begin accepting the ORCA card as a payment method for riding the Seattle Center Monorail. To help mitigate potential financial impacts of ORCA acceptance, the restated and amended agreement will provide for ORCA-specific adjustments to the revenue sharing between the City and SMS.

- "Foregone Fares" address the loss of revenue from riders utilizing the ORCA Passport product. Payments from Passport products are phased in over an 18-month period as annual contracts with businesses purchasing Passport products are renegotiated. During the phase-in period, Metro's remittance of monorail revenue will gradually increase as the revenue sharing adjusts to the addition of a new participant (the monorail). This is a process that will transition receipt of revenues from Passport products from 0% to 100% over a period of eighteen months. Seattle Center will credit to SMS one-third of the difference between the historical average number of paid fares is compared to actual paid fares should they decrease due to the Passport product.
- "Internal Transfers" refer to riders who use an ORCA product to purchase a fare on the monorail, and then use that ORCA card again for a return trip on the monorail within the ORCA two-hour transfer window. During this two-hour transfer window, the ORCA system will only collect one fare payment and will only remit one payment to the monorail. For the first $100,000 of total revenue impact per year, Seattle Center will offset SMS' revenue share by authorizing SMS to deduct from the City's concession fee the fraction of Annual ORCA Revenue Impact that is equal to the percentage of the SMS Net Operating Income (NOI) share. The initial total financial impact to Seattle Center is calculated to be $33,333 per year.

Capital Investment: This amendment requires SMS to invest a minimum of $3.5 Million in improvements to the Westlake Center and/or Seattle Center Stations or improvements to the trains themselves by December 31, 2022. The agreement also allows for a much higher investment (up to $12 Million), however the amount of investment will depend on reaching agreement with the owner of Westlake Center. SMS has begun negotiations with the mall ownership and intends to make the higher level of investment. The higher level of investment would result in improvements being made within the footprint of Westlake Mall itself. Such improvements would require SMS to negotiate an additional space lease with Westlake. The capital investment, as well as lease payments for any new space outside of the current Easement Agreement would be repaid through monorail operating revenues.

City Revenue:
Concessions Fee: Under the amendment, the City will receive two-thirds of the Net Operating Income exclusive of the Non-Fare Revenues, with no minimum fee guarantee, until the capital investments are made. Upon completion of the privately funded capital investments, the City will receive 60% of the Net Operating Revenue exclusive of the Non-Fare Revenues, with no minimum fee guarantee. Currently, the City receives two-thirds of all Net Operating Income with a minimum guarantee of $550,000, adjusted from time to time as fares are adjusted to keep pace with inflation.

Non-Fare Revenues: Currently, the non-fare revenue is included in revenue for purposes of calculating the concession fee payable to the City. Under the amendment, the Non-Fare Revenue will not be included for purposes of calculating the concession fee, and the City will receive an annual payment of $30,000 for Non-Fare Revenues from SMS annually for 2019-2021. The Non-Fare Revenue payment will increase to $60,000 annually beginning in 2022. Beginning the January following the SMS-funded Westlake Improvements coming on-line, the Non-Fare Revenue payment will be $90,000 annually, adjusting upward every three years (coincident with the CPI driven fare increases). Under the current agreement, Non-Fare Revenues are included in the Net Operating Income and are subject to the two-third revenue split.

City Services Fund: The City Services Fund will be reset from $66,157 in 2019 to $50,000 and will begin adjusting again annually thereafter by CPI. This fund is a separate fund maintained by SMS to reimburse the City for certain costs incurred by Seattle Center for graffiti removal or maintenance work performed on the monorail system as well as incremental security services.

City Management Fee: The City Management Fee, which was $33,079 in 2019 and is currently adjusted annually by CPI, will remain as stipulated through 2021, but will increase to $50,000 in 2022, and will be adjusted every three years thereafter by the accumulated change in CPI (coincident with the CPI driven fare increases). This annual fee pays for labor and expenses for the City's Coordinator(s) to administer and oversee the Concession contract.

SMS Revenue:
Management Fee: The Concessionaire's Management Fee is stipulated in the current agreement as 5% of Total Revenue, including Non-Fare Revenue. In this amended agreement, SMS will receive a management fee of 5% of total revenues, excluding Non-Fare revenues.

Net Operating Income: SMS will retain one–third of the Net Operating Income until the improvements at the Westlake Station are complete. Beginning the following January, they will retain 40% of the Net Operating Income.

Non-Fare Revenues: Currently, all Non-Fare Revenues (advertising, sponsorship, after hours rental of the monorail, promotions, etc.) are included in the Concessionaire's Total Revenue of which SMS receives a one-third split. The amended agreement gives SMS exclusive rights to all Non-Fare Revenues and responsibility for all Non-Fare expenses with the City receiving an annual flat fee as described above in City Revenue.

Reserve Funds:
Irrevocable Renewal Account: The current agreement requires the concessionaire to hold 7.5% of monorail ridership revenues in an Irrevocable Reserve Account (IRA) to fund mutually agreed upon capital improvements to the monorail system. The funds may be used as the local match for Federal Transit Authority (FTA) grants for capital improvements and major maintenance for the system. The amendment decreases that amount to 5% beginning in 2022.

Irrevocable Marketing Account: The current Concession Agreement includes a provision that establishes an Irrevocable Marketing Account and sets SMS' contribution level to it at 0.6% of ridership revenue. This provision is eliminated effective January 1, 2019.

The total estimated financial and ridership impacts of the Amended and Restated Agreement are shown in Attachment A.

Fares and Fare Adjustments: SMS and Seattle Center will realign the fare structure to align with Metro's in order to conform to ORCA requirements and add a new arena event fare. It is intended that fares will be increased to match inflation every three years with an initial price adjustment this fall. Please see the table below for the projected fare adjustments scheduled for October 7, 2019.

Category	Current	Proposed
Adult one-way (13-64)	$2.50	N/A
Adult one-way (19-64)	N/A	$3.00
Youth one-way (5-12)	$1.25	N/A
Youth one-way (6-18)	N/A	$1.50
Reduced Rate one-way	$1.25	$1.50
Adult Monthly Pass (non-ORCA	$50.00	$60.00
Reduced Rate Monthly Pass (non-ORCA)	$25.00	$30.00
Children 5 and Younger	Free	Free

2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project? ___ Yes _X_ No

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation amend the Adopted Budget? ___ Yes _X_ No

Does the legislation have other financial impacts to the City of Seattle that are not reflected in the above, including direct or indirect, short-term or long-term costs?

The legislation authorizes the Seattle Center Director to negotiate an agreement that extends the current term through 2034 with the option for a portion of the agreement to extend to 2039. There are some expense and revenue implications.

Expenses: To become an affiliate of Metro for the ORCA network of transportation providers, there are ORCA Program Regionally shared Costs, Participation, and Sponsors costs that must be paid. This agreement states the City will bear those costs, projected to be approximately $200,000 annually, through 2021. At that point, the costs will be considered an operating expense of the monorail and will be paid out of operating revenues. The annual fees will vary based on the number of ORCA riders on the monorail.

Revenues: The monorail generated just under $800,000 in revenue for Seattle Center in 2018. Due to the initial transition, it is anticipated that amount will decrease in the first few years. Much of this impact is the result of the phasing in of the ORCA Passport product. By 2022, it is anticipated the monorail will be generating approximately $866,000 in revenue with that amount steadily increasing due to increased ridership and inflation. By 2025, Seattle Center's share of the operating revenue is estimated to surpass $1.4 Million.

Is there financial cost or other impacts of *not* implementing the legislation?

By not implementing this legislation, it is likely Seattle Center would need to seek a new operator for the monorail.

4. OTHER IMPLICATIONS

a. **Does this legislation affect any departments besides the originating department?**
This legislation impacts SDOT. Currently, the monorail receives an annual grant from the Federal Transit Authority which flows through SDOT. That would continue. Additionally, a previous appropriation of $500,000 has been made for capital costs such as startup and equipment purchases.

b. Is a public hearing required for this legislation?
While no public meeting is required, we are holding a public meeting on September 11, 2019 to discuss the fare adjustments as well as the pending acceptance of ORCA on the monorail.

c. Does this legislation require landlords or sellers of real property to provide information regarding the property to a buyer or tenant?
No.

d. Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?
No.

e. Does this legislation affect a piece of property?
No.

f. Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities? What is the Language Access plan for any communications to the public?
This proposal would improve accessibility for an additional mode of transportation from Lower Queen Anne to the Downtown core. By allowing ORCA as a payment method, the monorail can now be used by people who qualify for the ORCA LIFT program. This program, which provides discounted fares on transportation systems, provides lower cost access to transportation. Additionally, all Seattle public high school students are eligible to receive a free ORCA card which can be used on the monorail.

In communicating the pending changes, Seattle Center has provided translated information for the three most common non-English languages spoken by monorail riders. Translation services will also be available at the September 11th public meeting for requests received by September 9th.

g. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s).
Not Applicable

List attachments/exhibits below:

Summary Attachment A – SMS_ORCA Financial Summary