

Select Committee on Civic Arenas

November 16, 2017

For Information

<http://www.seattle.gov/council/committees/civic-arenas>

KeyArena Redevelopment Project

**Council's consideration of the
proposed MOU to redevelop
KeyArena**

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Introduction to Presentation

Goal

Council will decide whether to authorize Memorandum of Understanding (MOU) with the Oak View Group to redevelop KeyArena at Seattle Center either as proposed or with amendments.

Financial Analysis

The independent financial consultant will share his findings on whether the MOU will provide for continuous, sustainable operation with minimal City financial participation, and whether financial risks have been appropriately addressed to advance this project to the next level (Transaction Documents).

Possible Amendments

Proposed amendment topics for Council's consideration.

Next Steps

Schedule highlights through 2020.



FINANCIAL ANALYSIS

Major Terms of MOU that Have a Financial Impact

- **Costs and Funding:** ~\$600M, funded by OVG (debt, equity, and historic tax credits) ([Sec. 5](#))
- **Term:** 39-year lease, with two potential extensions of eight years each. Lease extensions triggered by having an NHL and/or NBA tenant and ([Sec. 9a, 13b.ii](#)):
 - First eight-year extension: \$50M+ OVG renovation between years 21 and 30
 - Second eight-year extension: another \$50M+ renovation between years 31 and 47
 - OR, one \$250M+ renovation beginning in year 21 would trigger both extensions
- **Capital Expenditures:** in addition to renovation spending, OVG must spend \$1M+ per year in the first 10 years, and \$2M+ per year from years 11-39 ([Sec. 13b.i](#))
- **Tenants:** arena is planned to operate without an NHL or NBA tenant ([Exh. C](#)), but we have considered scenarios with one and both tenants
- **Other OVG financial contributions (beyond its operating lease):**
 - Up to \$3.5M for City costs associated with MOU and transaction documents ([Sec. 4](#))
 - OVG to pay for all permits and approvals ([Sec. 6a](#))
 - Transportation study, up to \$250K ([Sec. 17b](#))
 - \$40M transportation fund over 39 years ([Sec. 17b](#))
 - Charitable contributions of \$20M+, including \$10M+ to YouthCare ([Sec. 22](#))
 - Up to \$2M for relocation of Seattle Center tenants ([Sec. 21e](#))
 - Community liaison position ([Sec. 23c](#))

Financial Analysis – Overview

Four scenarios considered:

- A: No redevelopment
- B: Redevelopment – no NHL or NBA tenant
- C: Redevelopment – NHL tenant (beginning year 1)
- D: Redevelopment – NHL and NBA tenant (beginning year 1)

Projections:

- For 41-year period (two years of construction and 39 years of initial lease term)
- Projections include:
 - City revenues (OVG payments and taxes)
 - City expenses – included current commitments from arena revenues (many of which are directly funded by OVG), and others associated with redevelopment
 - OVG revenues – only those shared with the City
- Projections do not include:
 - Other OVG revenues – from arena operations
 - OVG expenses – financial commitments to the City, arena operations, debt service, capital expenditures

City Revenues from Lease Agreement

Construction Period + Sales Tax from Construction Materials

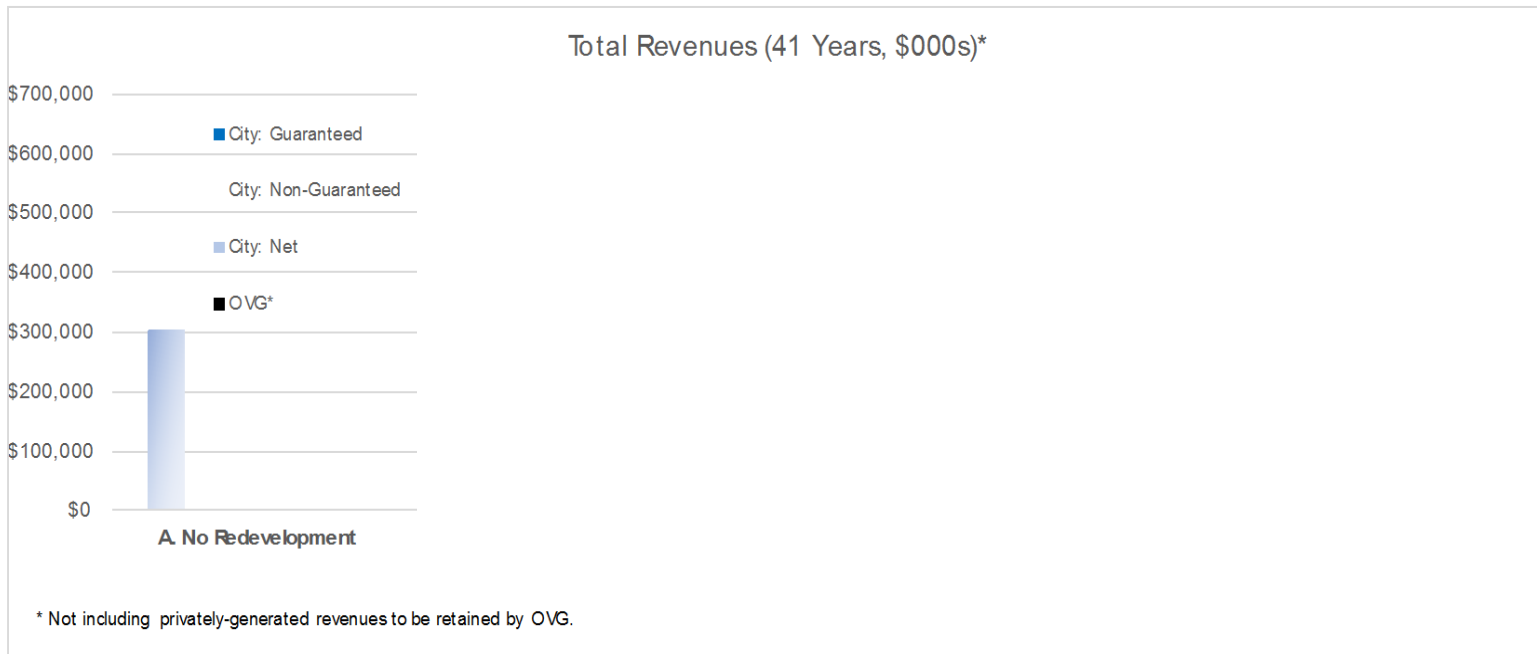


Annual Transportation Payment

TOTAL CITY REVENUES



Scenario A (No Redevelopment)

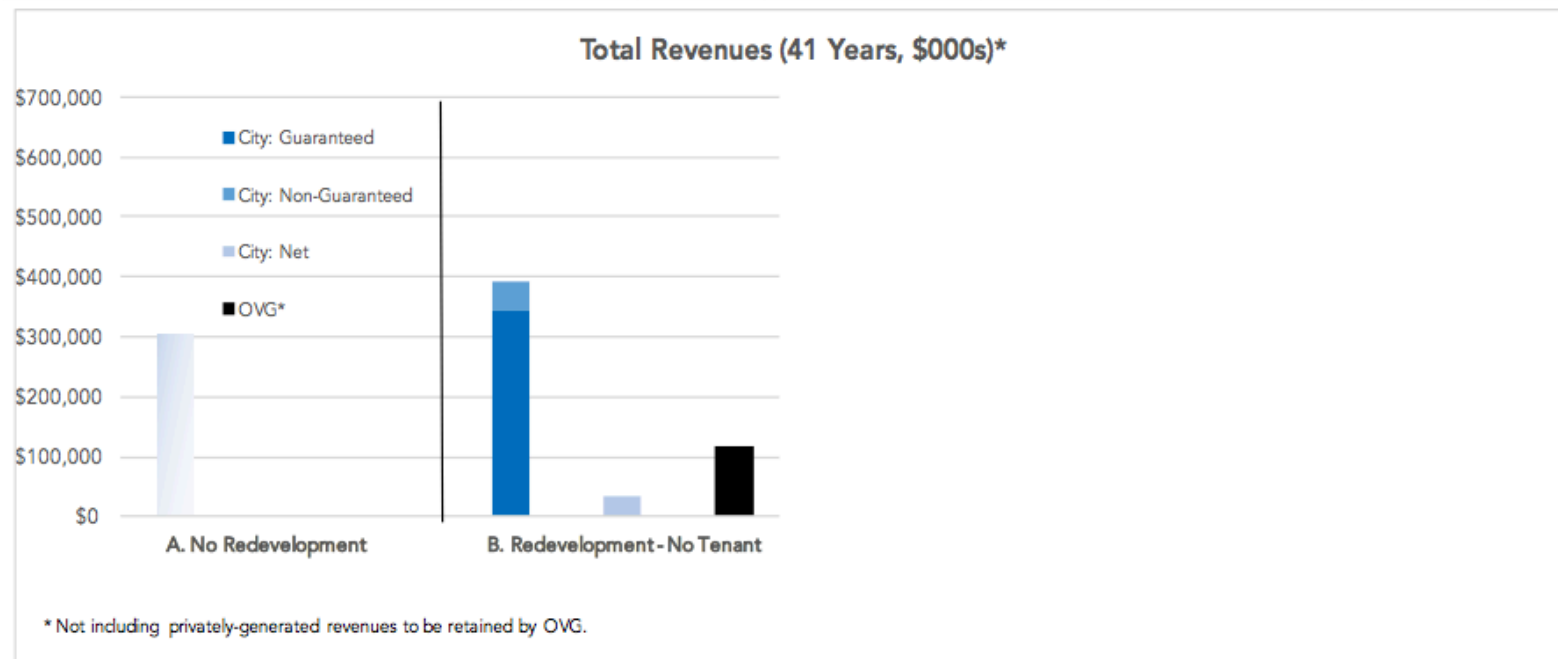


Assumptions

- City's recent historical revenues from operations are maintained (\$304M)
- Revenues are not guaranteed; City would have all operating risk. In addition, all existing revenues are pledged to the City and Seattle Center
- Significant capital expenditures would be the responsibility of the City and presumably require the revenues for repayment (resulting in net loss of City revenues)



Scenario B (Redevelopment/No Tenant)



- **CITY**

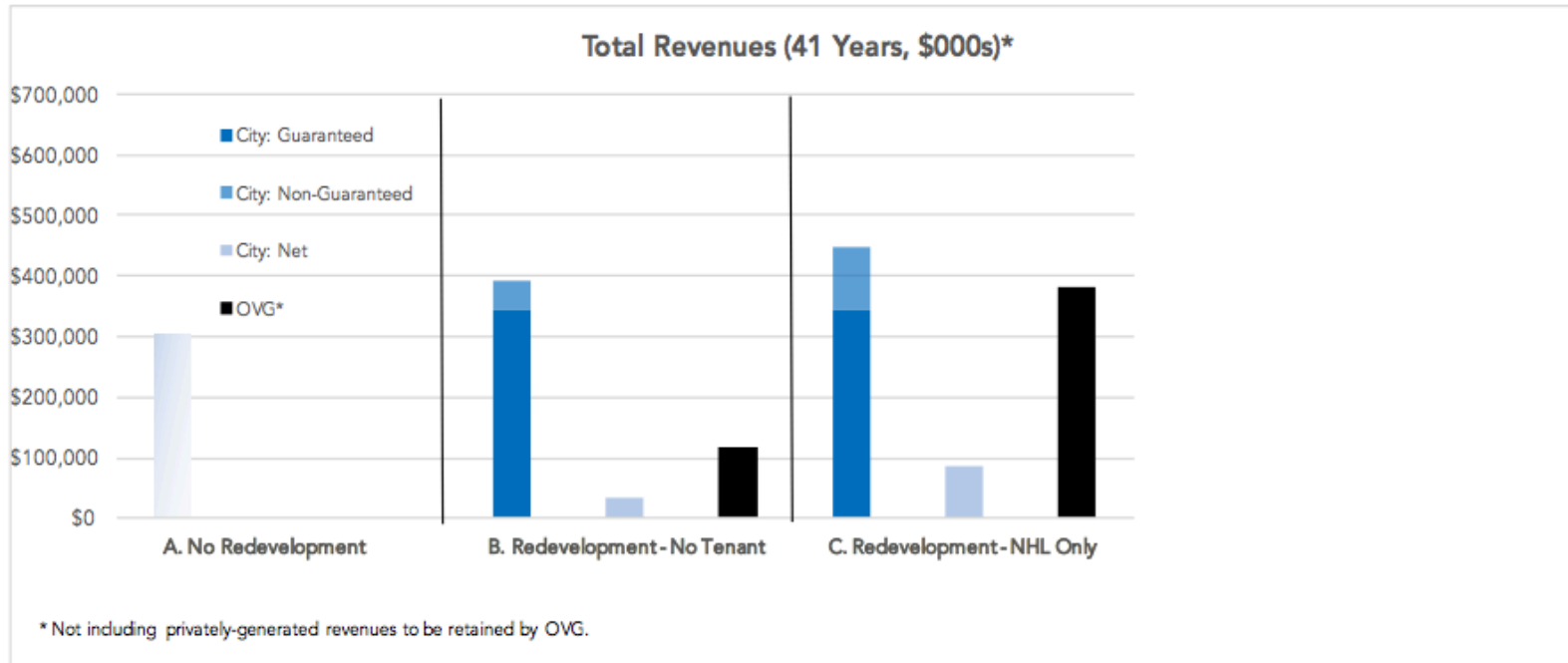
- Guaranteed baseline operating and tax revenues + transportation funding (\$344M)
- Shares in incremental tax revenues (\$50M)
- Resulting net revenue is \$33M

- **OVG**

- Share of incremental tax revenues is \$119M. Review indicates a sufficient return to OVG to justify investment



Scenario C (Redevelopment/NHL Tenant)



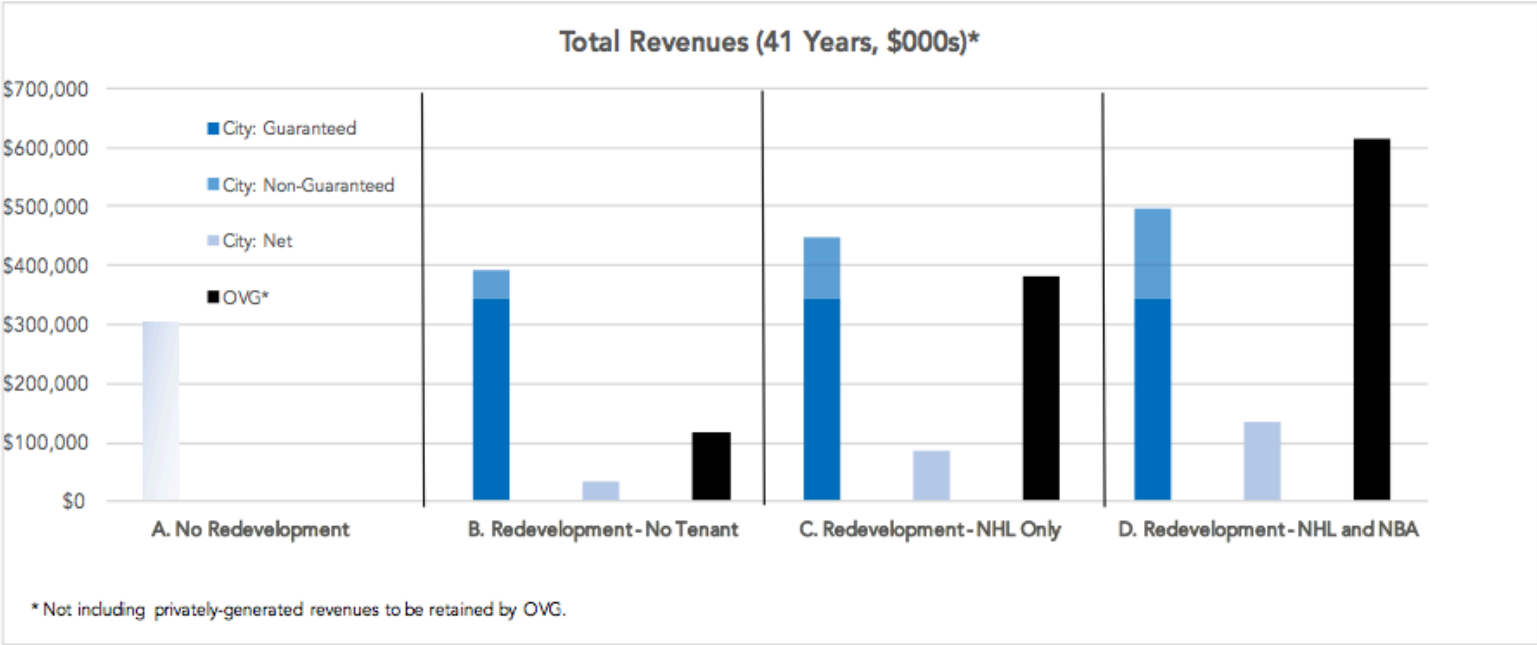
- **CITY**

- Guaranteed baseline operating and tax revenues + transportation funding (\$344M)
- Shares in incremental tax revenues (\$102M)
- Resulting net revenue is \$86M

- **OVG**

- Share of incremental tax revenues is \$381M

Scenario D (Redevelopment/NHL and NBA Tenants)



- **CITY**
 - Guaranteed baseline operating and tax revenues + transportation funding (\$344M)
 - Shares in incremental tax revenues (\$153M)
 - Resulting net revenue is \$136M

- **OVG**
 - Share of incremental tax revenues is \$614M





AMENDMENTS TOPICS

Amendment Topics for Consideration (1 of 4)

MOU Section/Title	Amendment Topic	Discussion/Recommendation
8, 19, 20 Placeholders	Placeholders no longer needed would be deleted and renumbered accordingly.	Technical amendment.
9(c), 17(b) Transportation Fund Spending	Restrict the use of the City's Transportation Fund, to which OVG is contributing, from making any payment for capital improvements for the Monorail.	The Transportation Fund is a City fund, and the City has sole discretion as to how to spend the money. <i>Authorized uses of this fund are appropriately addressed in a future ordinance.</i>
Exhibit J Key topics of Seattle Center Integration Agreement (Neighborhoods)	<p>(1) Project will be branded "iconic."</p> <p>(2) Programming will be designed to actively involve surrounding neighborhoods, including Uptown, Belltown, City and Region.</p> <p>(3) The Parties will dedicate staff and resources to ongoing collaborative programming and involvement with community organizations including such as Uptown Alliance, Uptown Arts and Culture Coalition, Project Belltown, or their successors.</p>	<p>(1) <i>Appropriate subject for an amendment to the proposed MOU.</i></p> <p>(2 & 3) The MOU requires OVG to enter into a community benefits agreement with community organizations to foster equity and social justice and provide benefits to the communities that will be affected by the Area, including support and enhancement of services for youth, arts, music and culture.</p> <p><i>The topics listed in 2 & 3 are appropriate subjects for possible inclusion into the Community Benefits Agreement, the terms of which will then be incorporated into the Development Agreement. They are not, however, appropriate subjects for the Seattle Center Integration Agreement.</i></p>





Amendment Topics for Consideration (2 of 4)

Section/Title	Amendment Topic	Discussion
9(c)(iii) Rent Payment	Require OVG’s baseline rent payment to begin no later than six months beyond the projected 24-month construction period, unless the delay was caused by the City.	Under the draft MOU, OVG’s obligation to pay rent begins on the Operating Term Commencement Date. The proposed amendment provides financial protection to the City in the event of a construction delay.
22 Charitable Contributions	Require the 20-year period for OVG’s charitable contributions to Youthcare apply to all other charitable recipients as well. At least half of the \$20 million charitable contribution shall be made in cash overall.	The draft MOU does not specify how much of the charitable contributions will be made in cash, and how much in in-kind contributions. The proposed amendment would require that at least half of the contributions are made in cash, and would include the potential NHL and NBA teams as a part of the Charitable Foundation contributions.
23(a) Naming Rights	Require the Seattle Center Director to consult with Seattle Center tenants before approving the name given to the Arena.	The naming of the Arena would be OVG’s right and a source of significant revenue. The internal process the Director will follow in deciding whether to approve the arena name rests entirely with the City. Under the proposed MOU, the Director cannot unreasonably withhold, condition or delay consent.
23(b) Scheduling Agreement	Require scheduling coordination between OVG, Seattle Center, and Seattle Center arts and cultural organizations such as the Pacific Northwest Ballet and the Seattle Opera; and require that coordination obligation to be incorporated into the Seattle Center Integration Agreement.	The Seattle Center Integration Plan (Exhibit J) includes “overall schedule coordination.” The affected entities are all Seattle Center tenants, and overall schedule coordination is part of what the Seattle Center already does. <i>Exhibit J could be amended to say: “Overall schedule coordination (Arena booking and campus events), including coordination with Seattle Center arts and cultural organizations including, but not limited to, Pacific Northwest Ballet and Seattle Opera.”</i>



Amendment Topics for Consideration (3 of 4)

Section/Title	Amendment Topic	Discussion
18 Signage Plan	Require the City and OVG to consult with other Seattle Center tenants before entering into a mutually agreeable comprehensive initial signage plan.	The signage plan is already one of the proposed topics for the Seattle Center Integration Agreement (Exhibit J). The signage plan provides that exterior signage visible on Seattle Center Campus is subject to Seattle Center rules and regulations, including approval of the Director. <i>This is an issue that could be worked out as the Integration Agreement is negotiated.</i>
21(e)(ii) Pottery Northwest	Require OVG to reimburse Pottery Northwest for all relocation costs and any other financial loss associated with its temporary relocation.	The MOU requires OVG to pay relocation costs (temporary and permanent). MOU 11(c) requires that a Development Agreement shall include a schedule and plan for the temporary relocation of the Pottery Northwest. This subject could be addressed between OVG and PNW.
14(c) Free Use Days	Require OVG to increase the number of free Community Event days from 14 days to 24 days.	The negotiated 14 days per calendar year will allow for up to six consecutive days for the annual Bumbershoot festival, and up to eight consecutive days annually for the Seattle/King County Clinic. The proposed amendment would add 10 additional community days.





Amendment Topics for Consideration (4 of 4)

Section/Title	Amendment Topic	Discussion
9(q); Exhibit C Tenant Improvement	Ensure the proposed MOU's definition of tenant improvement is clear.	Tenant Improvements are defined in Section 9 (q) and Exhibit C. Capital expenditures over the life of the lease are discussed in Section 13(a). Applicable design and operating standards are also addressed.
10(a) First Avenue North Parking Garage	Ensure the City has a defined process in the event the City receives an unsolicited purchase offer for the First Avenue North Parking Garage.	This garage is part of the "leased premises." Any purchaser would have to take the garage subject to OVG's lease. In the event the City receives an unsolicited offer to purchase it, the process through which the City would evaluate such an offer can be addressed separately from this MOU.
1(b)(ii) Financial support, of entertainment venues	Remove Section 1(b)(ii) that reads: "the City shall not provide financial support, benefits, or incentives (other than those that are generally available to any potential developer) with respect to the construction of any live entertainment venue with a capacity of more than 15,000 seats within the jurisdictional boundaries of the City of Seattle.	This language provides OVG the assurance that the City will not financially subsidize a competing arena.



NEXT STEPS

Near Term Next Steps in 2017

November 27, 2017: City/OVG Negotiations to be completed

December 1, 2017: Amend authorizing legislation & MOU

December 4, 2017: Final action on legislation and MOU





Schedule Highlights

2018

- Draft Mobility Plan (Feb)
- Draft EIS (Mar)
- Final EIS (Aug)
- Demolition (Oct)

2019

- Construction Begins (Oct)

2020

- First Arena Event (Oct)



Thank you