



City of Seattle

KeyArena Renovation

Summary of Proposed Agreement between the City and Oak View Group (OVG)

August 31, 2018

Arena Overview

- The renovated Arena will more than double the square footage of the current 368,000 square foot KeyArena.
- The City and ArenaCo (OVG's development entity for the project) will sign a 39-year lease with two, eight-year renewable options (for a potential total of 55 years).
- ArenaCo will design and construct tenant improvements to the Arena that will preserve the current and historic roofline and meet a LEED Gold rating, or achieve equivalent standards for energy use, water use, storm water management, construction waste diversion, and bicycle facilities.
- The Arena will be designed to accommodate 17,300 for hockey games, 18,350 for basketball games, and between 16,940 and 19,125 for concerts.
- ArenaCo will provide a state-of-the-art civic Arena to attract and present music, entertainment and sports events, potentially including National Basketball Association (NBA) and National Hockey League (NHL) teams.
- ArenaCo will use commercially reasonable efforts to pursue an NBA team and an NHL team to be the resident home teams and play their home games at the Arena.
 - ArenaCo will bear all costs of improvements to or enhancements of the Arena that may be required by the NBA, NHL or any other third party, in connection with obtaining and maintaining such team(s).
 - Each team will maintain its corporate headquarters in Seattle.
 - Each team's lease with the Arena will require a non-relocation agreement for the benefit of the City. For the NHL, that relocation agreement has been negotiated and requires that the NHL team not relocate for the 39-year term of the lease.
 - ArenaCo shall use commercially reasonable efforts to acquire the right to use the "Seattle Sonics/Supersonics" name.
- During the term of the Lease Agreement, the City will not negotiate with any person or entity, other than ArenaCo, regarding renovation or redevelopment of the Arena, or solicit or entertain bids or proposals to do so. Additionally, the City will 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 City of Seattle.

Financial Terms

- Construction of ArenaCo's tenant improvements to the Arena will be financed privately by ArenaCo with no City financing; the current project cost estimate is \$700 million. All costs and potential cost-overruns of construction and arena operations are the responsibility of ArenaCo.
- The City is entitled to rent of \$2,810,662 to cover the City's current base revenue generated by KeyArena, the 1st Avenue North Parking Garage and campus sponsorship rights, known as "Baseline Rent."
 - In the first 10 years of operation, ArenaCo will receive abatement of the Baseline Rent in the amount of \$350,000 annually.
- The City is entitled to payment of its baseline tax revenue, known as the "Baseline Tax Guaranty." ArenaCo will reimburse the City should the tax revenue generated by KeyArena and the parking garages fall below the "Baseline Tax Threshold." The Baseline Tax Threshold is \$2,242,419 and includes:

- the City's portion of Sales Tax revenues directly attributable to Arena operations;
- Business and Occupation Tax revenues directly attributable to Arena operations;
- the City's portion of Leasehold Excise Tax revenues attributable to Arena operations;
- Admissions Tax revenue attributable to Arena operations;
- Commercial Parking Tax and the City's portion of the Sales Tax revenues attributable to the 1st Avenue North Parking Garage, the Fifth Avenue North Parking Garage and the Mercer Street Parking Garage.
- The City recognizes that the City will receive additional consideration and financial benefit due to ArenaCo's significant investment in renovation and operation of the Arena including shifting of construction risk and potential cost overruns; assumption of operation risk, and responsibility for associated costs such as utility costs, security, routine maintenance, and insurance; historical preservation of landmark sites; arts funding; use of the Arena for fourteen (14) days per year; transportation and community benefits; technology improvements coordinated with Seattle Center; enhanced activation of the Arena and portions of Seattle Center used by the public; enhanced prospects for attracting NBA and NHL teams; and other community and public benefits. In consideration of these benefits, the amount of rent will be subject to an annual "Rent Adjustment"
 - The Rent Adjustment is calculated based on net revenue received above the Rent Adjustment Threshold, which is intended to equal the amount of tax and facility revenues the City receives from the current operation of the Arena and related business operations. The Rent Adjustment is calculated annually to be equal to revenues received by the City in excess of the Rent Adjustment Threshold from:
 - the Fifth Avenue North Parking Garage;
 - Mercer Street Parking Garage;
 - Seattle Center Sponsorship Rights;
 - the City's portion of Sales Tax directly related to Arena operations;
 - Business and Occupation Tax directly related to Arena operations;
 - the City's portion of the Leasehold Tax related to Arena operations;
 - the Commercial Parking Tax and City's portion of Sales Tax attributable to the 1st Avenue North, Fifth Avenue North and Mercer Street Parking Garages; and
 - the Admissions Tax revenue.
 - These incremental amounts will be aggregated annually. In the first 10 years of the Term, 25% of the total amount will be allocated to the City, 75% to ArenaCo. For each year thereafter, 50% of the total amount will be allocated to the City and 50% to ArenaCo.
 - For all years of the Term, ArenaCo's Rent Adjustment allocation will include 100% of Admissions Tax revenue above the Rent Adjustment Threshold.
- The City's guaranteed revenues, including Baseline Rent and the Baseline Tax Threshold will be adjusted annually for escalation (with no negative adjustments), determined annually to be the lesser of 3% or the percentage change in US Department of Labor Statistics Consumer Price Index for Urban Consumers (Seattle-Tacoma-Bremerton Local Area) or "CPI."
- ArenaCo commits to expending a minimum of \$1 million per year for capital improvements during the first 10 years of the lease. For the next 29 years, ArenaCo commits to expend no less than \$2 million per year on capital improvements. Additionally:
 - Between the 21st and 30th year of the Lease Term, in addition to the minimum capital commitments noted above, ArenaCo commits to expend no less than \$50 million on capital improvements. This investment will be a condition precedent to the City granting the first 8-year extension.
 - Between the 31st and 47th year of the Lease Term, in addition to the minimum capital commitments noted above, ArenaCo commits to expend no less than \$50 million on capital improvements. This investment will be a condition precedent to the City granting the second 8-year extension.
- ArenaCo will reimburse the City for all reasonable and documented out-of-pocket Development Costs up to a maximum amount of \$3,500,000 for costs related to the development, execution, and performance

of the MOU, the Transaction Documents, and related transactions, including, but not limited to expenses for engineers and legal, financial, and other required consultants paid by the City. Additionally, ArenaCo will pay all permitting expenses and SEPA expenses, which are separately reimbursable by ArenaCo to City and are not subject to the \$3,500,000 cap.

Risk Mitigation and Maintenance of Arena as a First-Class Facility

- ArenaCo will assume the risk of cost overruns during construction including the risk increased cost due to unknown environmental conditions.
- ArenaCo will be responsible for Arena operations and maintenance of the facility over the life of the Lease Term; ArenaCo will assume the risks and costs of operating and maintaining the arena.
- ArenaCo must maintain the facility to an operating standard suitable for serving as the home facility for NHL and NBA teams, and not less than consistent with the standards of quality and performance comparable to the United Center in Chicago, the TD Garden in Boston and the Pepsi Center in Denver.
- ArenaCo's equity will be in place before Arena construction begins. 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.
- In order to ensure that capital will be available to fund any unforeseen costs, ArenaCo is providing additional equity above and beyond the developer contingency, in the form of a contingency fund that will be controlled by the City.
- To ensure that costs will not escalate beyond ArenaCo's ability to fund the project, there will be a Guaranteed Maximum Price construction contract.
- The City, the lender and ArenaCo will each have representatives managing and monitoring construction costs during development and construction.

Transportation

- ArenaCo will contribute \$40 million to a City Transportation Fund, to be administered by the City.
- Separate from the SEPA/EIS process, a North Downtown Mobility Action Plan ("MAP") has been prepared to support transportation improvements for the north downtown neighborhoods; ArenaCo funded preparation of the plan and the City Transportation Fund will fund some of the projects identified in the MAP, including projects that may improve network connectivity for people of all ages and abilities to walk and bike, enhance transit service and connectivity, and improve overall traffic management in the Seattle Center area. The City will seek other public and private partners and funding for the purposes of advancing the objectives of the City Transportation Fund.
- The City has completed an environmental impact statement (EIS) analyzing the potential impacts of the project and identified alternatives, including a comprehensive traffic and historic resources impact analysis, and identification of possible mitigating actions.
- ArenaCo is responsible for funding mitigation actions identified in the EIS. Funds in the City Transportation Fund may not be used to fund SEPA-required mitigation.

Seattle Center Integration

- The Integration Agreement ensures design, construction, and operation of the Arena integrates into and benefits the overall Center campus.
- The goals and principles upon which the Seattle Center Integration Agreement are based are (1) People First, (2) Place-Making, Not Just a Project, and (3) Partnership for Success.
- ArenaCo will offer employment to current KeyArena workers upon opening of the Arena, including both City workers and employees of contractors working at KeyArena.
- Four Blue Spruce tenants are being relocated at Seattle Center and the two remaining tenants are self-relocating. Pottery Northwest is remaining in the Bressi garage.

- ArenaCo will pay the City \$1.5 million in consideration of the City's need to relocate the Seattle Center Skate Park, Campus Maintenance Facility, public restrooms and other public amenities affected by the project. The Campus Maintenance Facility is moving to the Next 50 Pavilion on the Seattle Center Campus and three potential Skate Park locations are being studied with a recommended location expected to be identified by year end 2018.
- ArenaCo will pay the City \$500,000 for relocation of displaced tenants, other than the Skate Park and Pottery Northwest.
- ArenaCo will assume the City's lease with the Seattle Storm or develop a new agreement with the team by the opening date of the Arena.

Community Benefits

- ArenaCo has agreed to community benefit terms as endorsed by community organizations to foster equity and social justice and provide benefit to the communities that will be affected by the Arena, including supporting programs and services for youth, arts, sports, music, and culture. These terms are incorporated into the Transaction Documents.
- ArenaCo will directly provide \$10 million in cash and in-kind donations to YouthCare, a non-profit organization serving homeless youth. In addition, ArenaCo will establish a Community Fund which will provide an additional \$10 million (with a minimum of 50% in case) for organizations that serve the greater Seattle area and the communities surrounding Seattle Center.
- ArenaCo will invest a minimum of \$3.5 million in public art for the project. The investment will be split into two phases:
 - In Phase 1, ArenaCo will invest \$1.75M in permanently-sited public art created specifically for the Arena.
 - In Phase 2, ArenaCo will invest \$1.75M in arts, music, and other cultural programming of the public spaces around the Arena, engaging resident organizations and community arts organizations in the surrounding communities.
- ArenaCo will make a \$2.5 million affordable housing impact mitigation payment. This payment will be split into two parts – an initial payment per the standard required MHA formula, and the remainder via an additional contribution to be completed within two years of the Arena's opening. The City will have the right to use the Arena 14 days per-year for the Seattle/King County Health Clinic, Bumbershoot, and other community events.
- ArenaCo has hired a full-time community liaison who will run day-to-day outreach operations, coordinating with local community organizations, during both development and operation of the Arena.
- Recognizing the importance of providing opportunities for patrons of all income-levels, ArenaCo will provide seats at a range of price points. ArenaCo will also collaborate with anchor tenants and community partners to identify regular opportunities to make reduced-priced tickets available.
- The project will include:
 - The City of Seattle Community Workforce Agreement terms. ArenaCo's agreements with its contractors and subcontractors of every tier shall also include priority hiring terms consistent with all additional elements of the City of Seattle's Priority Hire Ordinance at SMC Chapter 20.37.
 - A Labor Harmony Agreement with relevant labor organizations.
 - An Inclusion Plan using the City of Seattle's Women and Minority Owned Businesses ("WMBE") Construction Public Works WMBE Inclusion Plan.