



Date: 5/31/2017
To: Mayor Edward B. Murray
From: Brian Surratt, Director, Office of Economic Development
Author: Karl Stichel, OED

SECTION A: OVERVIEW OF THE ISSUE

Topic/Issue Title: Arena Recommendation

Please select one Briefing Function:

Briefing Function	<input checked="" type="checkbox"/>
General Update Only	<input type="checkbox"/>
Key Policy Impact/Change	<input type="checkbox"/>
Financial Permission Required	<input type="checkbox"/>
Delivery of Information Requested from Mayor or E-Team	<input checked="" type="checkbox"/>
Direction needed on next steps	<input type="checkbox"/>

Objective of this Briefing:

A briefing on the preferred alternative for the redevelopment of KeyArena.

Summary of Topic/Issue:

The Executive Review Team recommends the Oak View Group’s proposal (\$564M) for the Mayor’s consideration. Additional briefings for further actions are already scheduled.

Background:

On January 11, 2017, the City released an RFP for the redevelopment of KeyArena. Proposals were submitted on Wednesday, April 12, 2017. OED received two proposals totaling more than \$1 billion in combined investments proposed by two developers – Oak View Group and Seattle Partners (AEG and Hudson Pacific).

To evaluate the proposals, the City created a three-pronged approach: 1) convening a Community Advisory Panel to offer their advice and observations to the Mayor on strengths and areas of concern for the responses to the RFP; 2) coordinating City Staff Review Teams to provide a detailed analysis of the proposals as they relate to the City’s objectives; and, 3) having an Executive Review Team evaluate the City Staff Review Team recommendations and consider the advice from the Community Advisory Panel before making their recommendation to the Mayor. This briefing memo reflects the Executive Review Team’s recommendation.

Recommendation:

The first significant point we’ve learned is that the KeyArena site is a viable and important site for redevelopment, not only for Seattle Center and the City, but for the Uptown neighborhood as well. The two KeyArena proposals represent strong, sensible offers to redevelop the site and we believe this effort to redevelop KeyArena is the appropriate path for the City to undertake.

As you know, the City recently commissioned a comprehensive study on the cost to fix up KeyArena. The final report, published in June 2015 by the AECOM architectural firm, estimated \$100 million cost for minimal KeyArena upgrades, with a more likely cost of \$150 million+ to repurpose the venue into something that will break even financially. With the current SODO MOU silent on this cost issue, the City rejected the idea of having two venues as not financially viable. Therefore, having one world-class civic arena serving the region for concerts, entertainment, and NBA/NHL sports is in the best interest of the City and the arena at Seattle Center is the overwhelmingly preferred site.

The importance of a strong and lasting design, supported by significant financial resources, and a solid commitment to the community are paramount to selecting a preferred alternative. The Oak View Group (OVG) offers a strong design, backed by an experienced project team with extensive background in music/entertainment and professional sports to provide a world-class arena. OVG and its partners have a strong financial background and aimed to minimize the City's financial participation as requested in the RFP. OVG has committed to the goal to retain all leadership and staff members that work at the arena. They have also committed to support and implement local hiring practices and set defined minority and local hiring goals that reflect the diversity of Seattle. OVG will establish a \$20 million community fund, with YouthCare getting \$10 million for supporting homeless youth. Further, we believe OVG's experience, resources, and connections, will provide the city with its best opportunity to secure an NHL and/or NBA team.

For these reasons, we recommend the Oak View Group as the preferred Proposer to redevelop KeyArena.

As with any proposal, there are concerns the City will need to consider when negotiating with the preferred Proposer:

- *Transportation.* Neither proposal held a strong transportation package or funding, and, it would seem that the Proposers left this to the City to stipulate the details of transportation improvements. The City will need to decide what transportation and mobility improvements make sense for the area and what portion the OVG redevelopment should be responsible for.
- *Financial/City Revenues.* The City will need to confirm a guaranteed baseline revenue (without applying credits or other incentives against this amount) as an annual income stream. Additionally, the City would want a guaranteed baseline of tax revenues, as well as an agreement on incremental tax reinvestment.
- *Neighborhood.* The City and the neighborhood will need to confirm community benefits in an agreement, likely to include transportation commitments for biking and pedestrians, supporting the creation of a community center, supporting the efforts to secure a school, helping to designate Seattle Center as an Art District, and their commitment to preserving the historic nature of the arena.

OVG Specific Analysis

Oak View Group (OVG) and its partners (i.e. Madison Square Garden Company) appear to have the experience, capability, and resources to contribute significant equity and secure the financing it requires to provide a world-class civic arena. While OVG is a relatively new company, its principals, partners, and lender have decades of experience building, operating, and financing comparable world-class arenas with municipalities in the U.S. and around the world. The City has also had the benefit of working directly with the principal owner of OVG, Tim Leiweke, on his company's proposal.

Design is a strength of the OVG proposal – it meets NHL/NBA standards, provides for a flexible approach to adjust to future changes, and maintains existing roofline completely which puts forward a true historic preservation design option for the Arena that would likely meet federal standards. While OVG maintains the historic roof, they completely gut and remodel the interior, with a full rebuild of the lower and upper bowl—offering what seems to be a new arena under the historic roof. The design also offers some surety that the aesthetic and scale of the new Arena will integrate well into the Seattle Center campus and Uptown neighborhood.

From a financial standpoint, OVG's principals' experience and financial support from the Madison Square Garden Company give OVG and its partners an excellent chance to secure the construction and long-term debt necessary to construct and operate the arena. A major strength of OVG's construction financing proposal is that it does not require an upfront infusion of City dollars (i.e. no bonds issued or new taxes proposed). Construction financing is private equity

focused and private debt issuance. Goldman Sachs would finance the debt. OVG creates a capital reserve fund for maintenance and capital improvements to the building. They would initially contribute \$1 million upon completion of the arena and add \$1 million annually, up to the balance of \$5 million.

OVG provided a good, overall transportation analysis of the existing transportation conditions and ideas for mitigating potential transportation issues. OVG pledged to hire full-time community liaison to help with managing traffic and parking issues as they arise. OVG provided an analysis of use of existing and dispersed parking garages identifying more than 11,000 stalls within a 3/4-mile radius of Seattle Center. OVG also suggests making Westlake Monorail station improvements to accommodate more mass transit riders to and from Seattle Center. And, OVG's underground truck loading is a smart improvement over the existing space. OVG is flexible on whether to include the parking garage, in order to alleviate permitting and transportation issues. OVG also promises to provide personnel for traffic management, signage, police presence for event traffic control, and other mitigating measures (such as partnerships/incentives with Uber and Lyft, bike valet service, shuttle service, regional park-and-ride event shuttles, subsidized transit and Monorail fares, subsidized parking in SLU/downtown garages, and marketing/technology solutions).

We understand that OVG will strive to be an integral part of the community and will embrace diversity by using this redevelopment to help the local community and those in need. OVG has made strong commitments to the Uptown neighborhood and to the Uptown Alliance mission. OVG is committed to living wage, local hiring, WMBE participation, apprentice programs and local hiring diversity initiatives. OVG commits to relocating tenants or helping them with relocation costs, or, if appropriate, accommodating tenants on the site. They will accommodate the Seattle Storm and Seattle University agreements at KeyArena.

OVG will establish a \$20 million community fund, with YouthCare getting \$10 million for supporting homeless youth. OVG proposes to retain leadership and staff personnel at KeyArena, as well as implement a local hiring practice through a Community Workforce Agreement.

From the music standpoint, the ability to program a robust mix of music and entertainment is a strength for OVG, as they have partnered with Live Nation Entertainment, the global leader for live entertainment. Live Nation has consistently brought the highest-grossing shows and the greatest number of shows to KeyArena for the past 10 years, and by a large margin over their closest competitor, AEG Presents. Live Nation Entertainment is also the parent company of Ticketmaster, which is the world's leader in annual live event ticket sales and is the primary ticket seller for 27 of the 30 NHL teams and 28 of the 30 NBA teams.

Seattle Partners' Proposal Challenges

In evaluating the Seattle Partners' redevelopment proposal, there were three main issues that continued to be problematic for the proposal and Proposer:

- *Public Financing.* A weakness of Seattle Partners' construction financing proposal is that it requires significant City financial participation, an upfront infusion of City dollars from the issuance of bonds. To benefit from the relatively lower cost of financing, these bonds would need to be issued with the full faith and credit of the City. The proposed \$250 million in bonds with a 30-year term would be the largest debt offering in the City's history. Also, Seattle Partners has established a new LLC to be the proposer on the redevelopment – this new company does not have any history and the City does not know the extent to which the principals will guaranty the financial proposal.
- *Design.* This is an area of weakness for Seattle Partners in comparison to OVG. Seattle Partners has expanded the existing KeyArena to accommodate hockey to the south; however, many of the patron amenities remain hamstrung by the 1995 geometry which is essentially intact. Seattle Partners has not added the variety and flexibility of spaces that OVG has with the expansion of the floor plate. Seattle Partners has maintained 58% of the concourses and in doing so has kept many of the constraints that were issues from the 1995 KeyArena remodel: narrow upper concourses, more limited concession offerings and limited club spaces with sightlines in the bowl.

There is also a strong possibility that AEG's proposed Arena design would not meet federal or local landmark preservation standards. The extension of the roofline falls out of line with what was asked for in the RFP, as the City asked for either a tear down/rebuild or a design that is respectful of the existing historic roofline.

RSJI Analysis & Implications:

OVG believes that diversity of thought, background, and experience cultivate vibrant communities and thriving businesses. This project will be built and operated by persons who reflect the diverse communities Seattle. OVG will prioritize hiring local minority businesses and workers to design, build, operate, and maintain the arena.

With input from the City, OVG will establish metrics and targets that define a percentage goal for inclusionary hiring practices. OVG is looking at both state and local benchmarks to arrive at defined percentage goals, and will partner with the City's Race and Justice Initiative to ensure our policies and practices promote racial and socioeconomic equity.

OVG will have a full-time position dedicated to community outreach and equitable hiring. This person will work with Tabor 100, the City, and other community organizations to promote racial and socioeconomic justice, and to engage with and to inform Women and Minority Business Enterprises about contracting opportunities. OVG will provide access to bidding for WMBEs. OVG will work with the City to designate priority zip codes to define areas that the City identifies as needing additional support in hiring efforts.

OVG looks forward to working with the Seattle Chamber of Commerce, other regional chambers of commerce, Washington RoundTable, Seattle Rotary #4, the Northwest Minority Business Council, the Breakfast Group, the Urban League of Metropolitan Seattle, and other community organizations to develop a comprehensive labor agreement that creates tangible inclusion goals and policies that allow for women, minority, and LGBTQ persons to be fully represented in the workforce. Additionally, OVG will engage in efficient and effective outreach to priority zip codes and other underrepresented groups that will have priority access to hiring for the project both in the preconstruction, construction, and operations phases.

Seattle Values

Seattle is a city of rich diversity and we pride ourselves on the values we instill in our policies and practices, particularly socially responsible business practices. AEG is a subsidiary of the Anschutz Corporation, a privately held company lead by Philip Anschutz, who is known to fund ultra-conservative causes. According to numerous media outlets, Mr. Anschutz is known to have spent money to fight against civil rights for the LGBTQ community, supports the Institute for American Values -- which calls single parents "immoral," funds organizations that fight evolution and the teaching of evolution in schools, and denies climate science and promotes climate-change skepticism.

Key Policy Issues:

- **Leverage** – Once an announcement is made public, the City loses its bargaining leverage between the proposals.
- **Negotiation Terms** – OED will draft negotiation terms for the Mayor's review. Also, OED will set up a Negotiation Team and have the Mayor's Office as part of its Client Group, providing guidance on the negotiations as the City moves forward with terms for an MOU. Terms will likely include:
 - Transportation and mobility improvements
 - Confirmation of guaranteed City revenues/taxes
 - Commitment to the Uptown/Belltown/South Lake Union Neighborhoods
 - Further financial due diligence
 - Commitment to supporting Seattle Center and its tenants
- **Council Engagement** – How to best involve the City Council during the negotiation process so that a binding MOU will be completed and approved by year-end.

Indicate Legislation and/or Council action:

Arena Resolution – This legislation would reference the City’s selection of its preferred proposal, request Council guidance as we start the negotiation process, and have the Mayor’s notification letter attached.

July 7th – The Select Committee on Civic Arenas will meet to discuss the Mayor’s preferred Proposal.

Following the legislation and briefing, the next Council action will likely be the Landmark Board’s recommendation to the City Council on the criteria for the KeyArena redevelopment site. These criteria are called Controls and Incentives and will determine what can and cannot be changed for each building. Finally, the City Council will review and adopt the MOU in December 2017, and finally, a Development and Lease Agreement the Executive negotiates with the Proposer.

Please give a brief overview of any financial impacts:

OVG aimed to minimize the City’s financial participation as requested in the RFP. However, there is a request for City reinvestment of the incremental tax revenue derived from the arena, which would be invested annually.

On the revenue side, the City would generally receive the same level of tax revenues it currently receives, OVG would also provide the same level of parking revenue (based on average prior years 2014-16, adjusted for inflation) but the taxes and parking revenue amount above that would be invested into the project or captured by OVG. Net income from the redevelopment site is not replaced, although about half of the amount is repaid with a “credit” from incremental taxes. If the proposal is selected, there may be an opportunity to further refine the revenue streams.

Proposed timeline and schedule:

5/31: Deliver recommendation to Mayor
6/1: 2nd Meeting with EBM: Communication/Roll-out
6/2: Final Arena Community Advisory Panel meeting
6/7: EBM Announces Winning Proposal

Supporting materials:

Document Name	Document Type (PDF, Word, Excel...)
1) Notification Letter draft	PDF
2) Resolution draft	PDF

This document, and attached supporting materials, has been sent to relevant CBO/OPI staff, Operations Manager(s), and E-Team Lead (as applicable) 72 hours prior to submission to MO Briefings.

Please check all that may apply to this submission:

Public Rollout Involving the Mayor	<input checked="" type="checkbox"/>	Public Event Already Scheduled	<input type="checkbox"/>	Legal Review Required	<input checked="" type="checkbox"/>
Legislation (to write, transmit, etc.)	<input checked="" type="checkbox"/>	Significant Budget Impacts	<input checked="" type="checkbox"/>	Operational Support Required	<input type="checkbox"/>
Communications Strategy Needed	<input checked="" type="checkbox"/>	Significant Policy Impacts	<input checked="" type="checkbox"/>	IDT or Cabinet Involved	<input type="checkbox"/>
Council Briefing Upcoming	<input checked="" type="checkbox"/>	SLI Response Due to Council	<input type="checkbox"/>	Other (Specify in Summary)	<input type="checkbox"/>

SECTION B: BASIC INFORMATION

1. Name of Submitter: Karl Stickel
2. Department Origin of Submission: OED
3. Please list all departments involved or impacted by this issue: MO, OED, CBO, CEN, LEG, SDOT, SDCI, OPCD, DON, SDHR, SOCR, FAS, OPI, LAW, OIR

SECTION C: KEY STAKEHOLDERS

TYPE OF STAKEHOLDER	FIRST NAME, LAST NAME	DEPARTMENT
<i>Mayoral <u>Executive Team Stakeholder/Lead:</u></i>	Ben Noble, Director of City Budget Office	MOS
<i><u>Operations Manager:</u></i>	Maggie Thompson, External/Community Services	MOS
<i><u>CBO Lead:</u></i>	Catherine Cornwall	CBO
<i><u>CBO Analyst(s):</u></i>	Michael McVicker ; Choose an item.	CBO
<i><u>OPI Policy Analyst(s):</u></i>	Quinn Majeski	OPI
<i><u>Department Director(s):</u></i>	Brian Surratt, Robert Nellams	OED, CEN
<i><u>Departmental Staff Stakeholders</u></i>	Karl Stickel, Rebecca Lovell, Joe Mirabella	OED
<i><u>Departmental <u>Pipeline Liaison(s):</u></u></i>	Danielle Hursh	OED

EXECUTIVE TEAM/PIPELINE BRIEFING ADVISOR USAGE ONLY:

Recommendation	✓	Notes
Concur/Proceed	<input type="checkbox"/>	
Follow-Up Needed	<input type="checkbox"/>	
EBM Briefing Required	<input type="checkbox"/>	
E-Team Briefing Required	<input type="checkbox"/>	
MOS Staff Lead		