FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
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Legislation Title:

AN ORDINANCE related to a new multi-purpose sports and entertainment facility; authorizing the Mayor to execute a memorandum of understanding with King County and ArenaCo; to execute an interlocal agreement with the County; and superseding the authority provided by ordinance 123979.
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Summary of the Legislation:

This ordinance executes Attachment A, a Memorandum of Understanding (MOU) between the City, King County, and ArenaCo. ArenaCo is the company that will design, build and operate the proposed arena. The ordinance also executes Attachment B, an Inter-Local Agreement (ILA) between the City and King County. The MOU and ILA are consistent with each other, and outline a plan to design, build and operate a multi-purpose arena that would serve as home to National Basketball Association and National Hockey League teams and a first class venue for concerts and other cultural events. These two attachments have been slightly modified from the versions authorized under ordinance 123979, however there have been no substantive changes to the financial elements of the agreements.

For a detailed summary of terms of the MOU and ILA, please see Fiscal Note Attachment A.

The MOU is a binding agreement between the City, County, and ArenaCo, but does not limit in any way the City or County's ability and obligation to perform any regulatory function or due diligence. It identifies the responsibilities of each party, including public financing; security provisions for the public investment; arena construction including permitting and State Environmental Policy Act (SEPA) review; facility ownership and lease; and operations and capital improvements.

The City would commit up to $120 million in financing and the County would commit up to $80 million in financing to support the Arena specifically, which would leverage an estimated direct investment of $290 million into development of the arena and additional amounts to secure NBA and NHL teams. In addition, $40 million would be provided in funding for transportation improvements in the area south of downtown and up to $7 million would be provided for investments in KeyArena or the KeyArena site. These public amounts and all public financing related to this project are subject to the satisfaction of numerous conditions. Repayment of this financing would be supported by rent payments from ArenaCo and taxes generated directly as a result of this project. The City and County investment is secured through a variety of mechanisms, including certain personal guarantees from the project's lead investor.

The specific tax revenues that would support project public financing repayment and capital work are limited to taxes that are available for general purposes, including increased property taxes, sales tax, B&O taxes, admissions tax, leasehold excise tax, and the City's parking tax. The amounts of taxes dedicated to support the project are limited to those taxes created directly as a result of the project and which can be verified by the City and County. For example, this includes admissions taxes on tickets for events at the facility but would exclude sales tax paid on food at restaurants across the street. Only parking taxes that are collected under contract with ArenaCo would be included – and none are assumed in our modeling. Fiscal Note Attachment B has a detailed breakdown of projected tax revenue flows based on current financial modeling.

ArenaCo would pay for all design, development, and construction costs of the arena, and would be required to operate and maintain the facility over its lease which would be at least 30 years in duration. The NBA and NHL franchises would enter into non-relocation agreements in addition to regular lease agreements, and would be required to remain in Seattle for the duration of the lease and public financing.

Following the execution of the MOU and ILA, the City, County and ArenaCo would begin to work on additional documents, referred to as the "Transaction Documents". ArenaCo would also begin design and permitting work for the project.

In the near-term, the MOU identifies KeyArena as potential interim home for NBA and NHL franchise teams prior to completion of the new arena. If KeyArena is used as an interim home, ArenaCo would make improvements to the facility. Some of these improvements would be of a permanent nature, which may include modernization of telephone, data, and broadcast systems, as well as other capital refurbishments.

In the longer-run, the development of a new arena, whether in Seattle, Bellevue, or elsewhere in the region, will have impacts on the operations of KeyArena. Even under the status quo, KeyArena roughly breaks even on operating costs annually, but limited funding is available for major upkeep of the facility. Recognizing these realities, the proposed MOU commits the City to evaluate potential future options for the KeyArena or the KeyArena site. Up to $150,000 of the costs this evaluation represents a reimbursable cost to be paid by ArenaCo. In addition, $2 million has been specifically set aside to help fund the implementation of any recommendations that emerge regarding the future of KeyArena or the KeyArena site.

The MOU also provides up to $150,000 from ArenaCo to pay the cost of a study to assess the potential economic impacts of the new Arena. This study will be conducted in conjunction with the County and appropriations of the required funding will be incorporated into a future ordinance.

A separate companion ordinance includes appropriation requests for other anticipated City costs in 2012 that would be required if the MOU and ILA are executed.

For a detailed summary of terms of the MOU and ILA, please see Fiscal Note Attachment A.

Please check one of the following:

____ This legislation does not have any financial implications.

__X__ This legislation has financial implications.

Appropriations:

Fund Name and Number	Department	Budget Control Level*	2012 Appropriation	2013 Anticipated Appropriation
TOTAL				

See budget book to obtain the appropriate Budget Control Level for your department.

Appropriations Notes:

This legislation has a separate companion ordinance that would create appropriation authority to perform work required in 2012 as a result of the execution of the MOU and ILA. Additional detail can be found in that companion ordinance, but it covers these general areas:

ArenaCo will pay to support the costs of a City-County Representative who will represent the interests of the City and County in arena matters. The City-County Representative will be a City employee in the Department of Finance and Administrative Services (FAS).

Approval of this MOU would entail the City incurring costs related to necessary consultants, legal work, any engineering work required by the City and County and other related costs.

ArenaCo will also pay to provide dedicated staffing in the Department of Planning and Development (DPD) to expedite the review of permits, as is common with major projects. Based on current projections, DPD has sufficient appropriation authority and position authority to fulfill this work so no additional appropriations are requested.

Up to $150,000 will be paid by ArenaCo to cover the costs of an economic impact study.

Costs for work leading up to the transmittal of the MOU and ILA are being absorbed within departments' existing appropriation authority.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Department	Revenue Source	2012 Revenue	2013 Revenue
TOTAL				

Revenue/Reimbursement Notes:
A separate companion ordinance authorizes required appropriation for 2012 and describes anticipated revenues. High level details are included here for reference.

The MOU requires ArenaCo to reimburse the City and County for development costs of up to $5 million. The first reimbursement would occur on the date at which the City purchases the project site from ArenaCo, known as the Transfer Date. Subsequent billings would occur monthly through the opening of the Arena, known as the Commencement Date. If circumstances prevent the project from ever reaching the Transfer Date, ArenaCo would not reimburse the City and County for development costs.

ArenaCo will also pay to provide dedicated staffing in the Department of Planning and Development to facilitate the review and processing of permits, as is common with major projects.

In addition, ArenaCo will pay to support the costs of a City-County Representative who will represent the interests of the City and County in arena matters. The City-County Representative will be a City employee in the Department of Finance and Administrative Services (FAS).

Total Regular Positions Created, Modified, or Abrogated through this Legislation, Including FTE Impact:

Position Title and Department	Position # for Existing Positions	Fund Name & #	PT/FT	2012 Positions	2012 FTE	2013 Positions*	2013 FTE*
TOTAL							

** 2013 positions and FTE are <u>total</u> 2013 position changes resulting from this legislation, not incremental changes. Therefore, under 2013, please be sure to include any continuing positions from 2012.*

Position Notes:
The companion ordinance adds a position that functions as the City-County Representative.

Do positions sunset in the future?
The position would exist for the life of the arena lease (30+ years).

Spending/Cash Flow:

Fund Name & #	Department	Budget Control Level*	2012 Expenditures	2013 Anticipated Expenditures

TOTAL				

** See budget book to obtain the appropriate Budget Control Level for your department.*

Spending/Cash Flow Notes:

Other Implications:

a) Does the legislation have indirect financial implications, or long-term implications?

The Arena MOU outlines a public/private partnership that would last over 30 years. It is anticipated that the operation of a multi-purpose arena as contemplated in the MOU would induce indirect economic activity within the City, although that activity is not directly accounted for in the revenues described above.

b) What is the financial cost of not implementing the legislation?

In the event that the City does not move forward with this agreement, it is reasonable to anticipate that such a venue might be constructed elsewhere in the region. This may draw economic activity out of the City and would present operational challenges in particular for KeyArena as competition for attracting events would be increased.

c) Does this legislation affect any departments besides the originating department?

This legislation would require the collaboration of the City Council, Department of Finance and Administrative Services, the City Attorney's Office, the City Budget Office, the Department of Planning and Development, the Department of Transportation and Seattle Center. These departments have been actively involved in the development of this proposal.

d) What are the possible alternatives to the legislation that could achieve the same or similar objectives?

The primary alternative to the proposed agreement would likely involve an alternative site. The SEPA review process will evaluate, from an environmental impacts perspective, the relative merits of at least one alternative site (per the specific terms of the MOU).

e) Is a public hearing required for this legislation?

Yes. In addition, while not official public hearings, four public meetings were held on this topic to gather input and comment from the public, as well as to discuss concepts addressed in the MOU.

f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

Given the public/private partnership, a CLEAN hearing will likely be required.

g) Does this legislation affect a piece of property?

The MOU sets in motion additional processes that may involve the City purchasing property for the arena site. The private investor has acquired land adjacent to First Avenue South between

South Massachusetts Street and South Holgate Street.

Other Issues:
The parties acknowledge that the acquisition of a NHL franchise would occur after the acquisition of an NBA franchise. The MOU also acknowledges that ArenaCo is likely to move ahead with development and construction of the arena in the event that it has not yet been able to secure an NHL franchise team tenant. Irrespective of when an NHL franchise tenant is secured, the arena will be built to specifications that will accommodate an NHL franchise team once it is secured. The MOU outlines the process that will be followed in the event an NHL franchise team tenant has not yet been acquired at the time of the second public financial installment. These details are summarized in Fiscal Note Attachment A, but it is important that without an NHL team the maximum public combined contribution decreases from $200 million to $145 million. In this NBA-only scenario, $120 million be available for the Arena and up to $25 million in public financing would support transportation infrastructure projects.

List attachments to the fiscal note below:

Fiscal Note Attachment A – Summary of MOU and ILA terms
Fiscal Note Attachment B – Arena Finance Model – Project Taxes by Year
Fiscal Note Attachment C – Arena Finance Model – Output Summary

Summary and Key Terms

Memorandum of Understanding (MOU)

Overview

- Parties to the MOU are the City of Seattle, King County, and ArenaCo. ArenaCo is the company that will construct, operate and maintain the arena.
- Binding agreement, but does not impact ability of City or County to perform their regulatory roles, including SEPA review, and is subject to each Party successfully fulfilling obligations.
- All parties agree to work and negotiate in good faith.
- This MOU document, while detailed, is the first of many documents that would be developed and executed. The set of future documents is referred to as the "Transaction Documents". One of the key future transaction documents is the "Umbrella Agreement", which will further define details.
- Following the execution of this MOU, the City, County and ArenaCo have up to 5 years to execute the more detailed Umbrella Agreement; otherwise the MOU expires.

Description of Project

- The project is to develop, build and operate a multi-purpose sports and entertainment arena.
- Approximately: 700,000 sq.ft.
- Will accommodate approximately 19,000 attendees for concerts, 18,500 attendees for NBA games, 17,500 attendees for NHL games.
- Location is adjacent to First Avenue South between South Massachusetts Street and South Holgate Street.

SODO Transportation Infrastructure Fund

- The project will create a $40 million SODO Transportation Infrastructure Fund. These funds will come from incremental tax revenues at the KeyArena, Arena taxes generated during construction and the period of arena operations before the Transfer Date, and potentially some portion of the second installment of public financing.
- The SODO Transportation Infrastructure Fund will give first priority to projects protecting the operations of the Port of Seattle and improving freight mobility, and then to projects that improve pedestrian safety, enhance transit service and connectivity, and overall traffic management in the SODO area.
- The City and County will seek other public and private partners and funding for the purposes of advancing the objectives of the SODO Transportation Infrastructure Fund, including but not limited to the Port of Seattle, the operators of Safeco Field and CenturyLink Field, and federal and state governments.
- Further details related to the oversight and governance structure of the SODO Transportation Infrastructure Fund shall be delineated by future City ordinance.

KeyArena Fund

- The project will create a $7 million KeyArena Fund. These funds will come from the first $7 million in increment taxes generated by the temporary location of an NBA team (and potentially an NHL team) at the KeyArena.
- The fund will pay for improvements to the new Arena; provided, however, that in the event that ArenaCo negotiates a long term lease containing terms that are commercially viable for both ArenaCo and each existing anchor tenant at Key Arena with regularly scheduled events that do not and will not conflict with regularly scheduled NBA Team or NHL Team events, then the City will direct $5 million of the Key Arena Fund to be used to support investments or fund improvements to the new Arena.
- At least $2 million of the fund will be reserved to implement recommendations that emerge from a planning process to determine the future of the KeyArena or the KeyArena site.

Construction and Delivery Method

- The City and County will use the Lease-Purchase method to call for bids to construct the facility. Under this approach, the winning bidder constructs the facility and the City and County agree to lease or purchase the facility following completion.
- ArenaCo will be a bidder in this process.
- All public financing and most obligations contained in the MOU are contingent upon ArenaCo being selected through the bid process.
- If awarded the contract, ArenaCo would be responsible to build the facility, with the City and County obligated to lease or purchase it following completion.
- Prior to the completed arena being added to the new construction property tax rolls ArenaCo will own the facility. The City and County will lease the Arena for a nominal rent and then lease it back to ArenaCo.
- Within 12 months of when the facility is added to the property tax rolls, the City and County are obligated to either purchase the facility or to have a trustee prepay the 30 year facility lease. This date is the "Transfer Date".
    - If the City and County exercise the option to purchase the facility from ArenaCo, ArenaCo would then lease the facility from the City and County and operate and maintain it. This is the option most commonly discussed.
    - If the City and County instead exercise the option to have a trustee prepay the facility lease, the City and County would then lease the facility for 30 years, and ArenaCo would sub-lease the facility and operate and maintain it.

Due Diligence and First Installment of Public Financing

- Prior to the City and County entering in the Transaction Documents, ArenaCo will provide the financial data needed for both governments to complete their due diligence regarding ArenaCo's ability to meet the financial commitments called for under these agreements.

- Prior to any public financing occurring, ArenaCo must meet these requirements:
    - Acquisition of ownership rights to an NBA franchise with NBA acknowledgment of the Arena Lease and a non-relocation agreement in place.

- Acquisition of all land required for the Arena and facilitation of the City's and County's due diligence on the land as to its environmental condition.
- Successfully complete land use processes and secure any required permits, including a master use permit.
- Completion of SEPA review, including an assessment of Seattle Center as a potential location.
- Secure required financing to complete construction of arena facility.
- Funded the City/County Reserve Account (described below).
- ArenaCo and NBA team are domiciled in Seattle for tax purposes.
- Successfully complete any transaction documents required.
- Be the successful bidder of the City and County's call for proposals to construct the arena.

- Once these criteria are met, the City will purchase the land from ArenaCo. The value will be based on an independent appraisal, but is capped at $100 million. This is the first installment of public financing and does not involve the County. This date is referred to as the "Closing Date".
- In the case of a significant natural disaster or other material adverse condition that may occur prior to financing, the City and County are not obligated to make any financial contribution.
- If after the first installment ArenaCo is unable to complete the arena project, Chris Hansen will buy the property back at the price paid by the City and County.

Second Installment of Public Financing

- The second installment of public financing occurs on the Transfer Date and will involve both the City and the County.
- The amount of the second installment of public financing is dependent upon whether an NHL team has been secured and all conditions met, including a non-relocation agreement for the term of the Arena Lease.
  - If these NHL conditions have been satisfied, the second installment will be an amount that, when combined with the first installment, will total $200 million.
  - If these NHL conditions have not been satisfied, the second installment will be an amount that, when combined with the first installment, is no more than $145 million. Of this total, no more than$120 million can be used for the Arena, with the remaining available to "fill" the SODO Transportation Fund to a total of $40 million.

Structure of Public Financing

- Public financing will include two installments of Limited Tax General Obligation bonds or Certificates of Participation, with durations of approximately 30 years.
- The MOU contemplates debt service amounts rising at one percent annually for the first 10 years and level debt service from Year 11 on for each installment. Debt service during the period of construction and the initial period of Arena operations before the Transfer Date will be structured to accommodate limited revenue flows. In particular, $1 million per year (the ground lease and then base rent) will be made available to pay debt service on the first installment for the first four years. The tax revenues generated during this period will be directed into the KeyArena Fund and SODO Transportation Infrastructure Fund.

- The MOU acknowledges that most of the public financing obligations will be taxable. If the City and County determine that tax-exempt debt can be issued, the revenue streams supporting those debt service payments would be excluded from Arena Tax Revenues and would not be guaranteed by ArenaCo. The City and County would use this strategy only with otherwise secure revenue streams, such as property taxes.
- The MOU leaves flexibility for the City and County, in consultation with ArenaCo, to work collaboratively to structure debt in the most cost-effective manner available at the time financing occurs. Public financing will be consistent with City and County debt management policies.

Ground Lease and Arena Lease

- The City will lease the site to ArenaCo for $1 million annually during construction. This ground lease will continue until the arena is ready for occupancy ("Commencement Date").
- On the Commencement Date, the Arena Lease begins. Provisions of the Arena Lease include:
    - Term of at least 30 years, and no less than the term of any public financing.
    - ArenaCo will pay Base Rent in the amount $1 million annually. ArenaCo will also pay Additional Rent if required such that the combination of Base Rent, Arena Tax Revenues, and Additional Rent are sufficient pay City and County public financing obligations. The total annual debt service obligations of the City and County public financing are referred to as the "Annual Reimbursement Amount".
        - "Arena Tax Revenues" means the amount of property tax, sales tax, leasehold excise tax, admissions tax, business and occupation tax, and parking tax revenues attributable to the arena and arena tenant improvements that have been received by the City and County on and from the project site and arena. Arena Tax Revenues excludes taxes that are restricted in their use, such as dedicated sales taxes for Metro Transit and criminal justice purposes, and dedicated property taxes, such as those that support Emergency Medical Services. Only parking taxes collected directly by ArenaCo or an affiliate that can be directly tied to activity at the arena are included. Business taxes paid by the NHL and NBA teams are included in Arena Tax Revenues.
    - The Arena Lease includes options for four 5-year extensions, with base rent increasing to $4 million during the first extension, and by inflation thereafter. Lease extensions are contingent upon extensions of NHL and NBA non-relocation agreements.

City and County Oversight

- The City and County will appoint a "City-County Representative" who will represent the City and County during the regular course of business.
- The City-County Representative will have access to all non-privileged major meetings involving ArenaCo and project managers during all phases of the project and will also have access to all written and electronic non-privileged information.

Arena Design, Development and Construction

- ArenaCo is solely responsible for the cost of design, permitting and construction, including any cost overruns, and any cost of remediation of any hazardous materials on the project site.

- The City and County will have reasonable ongoing input during design and will have the right to approve the schematic design and design standards. Approval will not be unreasonably withheld.
- ArenaCo will make good faith efforts to address concerns raised by the City-County Representative. The City and County do not have any responsibility for the design or construction of the arena.
- The design will conform to any applicable City and County codes, any NBA and NHL requirements for arenas, and be substantially similar in quality to three mutually agreeable NBA/NHL arenas. The design will also will be in conformance with applicable City requirements for sustainable construction and will strive to utilize the most modern practices of sustainable design.
- The City and County have the right to object to material deviations during construction from the approved design schematics or to the extent there is a violation of federal or state law.
- The City and County will be a beneficiary of a performance bond guaranteeing timely completion of the facility and securing appropriate insurance.
- All parties agree upon the importance of inclusion of minority workers who are traditionally disenfranchised and low-income workers and businesses in project design and construction.

Operations and Management

- ArenaCo is solely responsible to operate and maintain the facility in a standard comparable to three mutually agreeable professional basketball and ice hockey arenas.
- Failure to operate the facility in accordance with standards constitutes a default, and enables the City and County to replace ArenaCo as the operator, among other remedies.
- The City and County will have the right to use the facility for at least 12 events each year rent free. The City and County would pay direct operating costs for these events
- ArenaCo will market the arena in a manner that promotes economic development in the area.
- ArenaCo will enter into license agreements with the NBA and NHL teams for terms consistent with the public financing. The City and County have the right to review and approve these agreements to ensure they include non-relation agreements and definitions of arena and team revenue streams.
- ArenaCo will maintain ongoing general liability insurance and property insurance for the full replacement value of the arena.
- ArenaCo makes an ongoing commitment to use reasonable efforts to use minority and low-income workers and businesses in the operations and maintenance of the arena.

Security Provisions and Default

- ArenaCo will fund a Reserve Account held in escrow that totals at least the amount required for City and County debt service obligations for the following year.
- ArenaCo will be required to certify annually that Net Arena Revenues for the preceding fiscal year are at least two times the amount required for the following year's total City and County debt service. This amount is referred to as the "Coverage Ratio". Net Arena Revenues are the total amount of revenues received by ArenaCo, less operating costs, which includes rent obligation to the City and County. If Net Arena Revenues are less than the Coverage Ratio,

ArenaCo must fund the reserve account to two times the debt service obligation for the following year.

- The City's and County's right to receive rent payments are secured by a first priority payment position from Arena Revenues, senior to any private debt service. This includes revenues from facility naming rights, suite and premium seating sales, concession payments, box office fees, and other arena-related revenues. This excludes revenues reserved by the NBA and NHL to the teams themselves, such as ticket revenues. The City and County will be further secured by a lien on revenues and receivables of ArenaCo, the terms of which are to be agreed upon between the City, County and private lenders to ArenaCo.
- The MOU specifically acknowledges that the City and County will be party to an "intercreditor agreement" with the project's third-party commercial lenders. This agreement will address how the parties will address potential situations of default, the remedies available to each party and the relative claim of each party to specific arena revenues.
- Should the City or County need to draw down the Reserve Account, ArenaCo has 30 days to refill the account. A default occurs if ArenaCo fails to refill the Reserve Account within 30 days.
- The company that owns the equity in both ArenaCo and the NBA team will provide a guaranty of the Arena Lease. Further, in the event of default and the team(s) ceasing to play in the Arena, the City and County will have first rights to the proceeds of the sale of an NBA team, subject only to repayment of any NBA team obligations to the NBA. Debt obligations to the NBA by the NBA team owner are capped (initially at $150 million) to ensure that the team owner has sufficient equity in the team to meet obligations of the City and County in a default scenario.
- If ArenaCo and its parent corporation fail to necessary rent payments or "refill" the reserve account, the City and County will be able to turn to the principle investor who has offered a personal guarantee to make necessary debt service payments for up to 5 years.
- The NBA and NHL teams each will be subject to a non-relocation agreement with specific performance requirements, including the playing of home games in the arena, liquidated damages and injunctive relief provisions.
- Assignment of the Arena Lease to another party is subject to the written consent of all parties, and in particular subject to the City and County being satisfied of the financial capacity of the assignee to meet all ArenaCo obligations. In such event, the assignee must assume all obligations of ArenaCo.
- Both the Capital Account and the City-County Capital Account also serve as security for debt service payments.

Surplus Arena Tax Revenues

- If the combination of Arena Tax Revenues and Base Rent exceeds debt service levels, then each year the first $2 million of any surplus arena tax revenues will be deposited into a City-County capital account. Beyond this $2 million, the City and County can use additional surplus arena tax revenues for advanced debt retirement.
- The City-County Capital Account has a cap of $10 million during the first 10 years. This cap grows by $2 million annually until year 15, when the cap is $20 million. Surplus revenues that

would cause the City-County Capital Account to exceed the cap must be used to redeem or defease outstanding principal of the public financing.

- If the total public financing is retired, then the City-County Capital Account cap is removed.

Capital Improvements

- ArenaCo will annually prepare and submit a five-year capital plan for anticipated expenditures that will be subject to review by the City and County.
- Regular independent inspections for compliance with standards will be performed.
- ArenaCo is required to deposit $2 million annually into the Capital Account. The Capital Account will hold funds from ArenaCo designated for capital improvements. This account is distinct from the City-County Capital Account, in which surplus Arena Tax Revenues will be placed by the City and County, which are also designated for capital improvements.
- The Capital Account is designated for repairs, replacements and improvements, defined as relating to items with a lifespan of at least three years and costing at least $5,000 per item, or other systems required for the functioning and maintenance of the arena in accordance with agreed upon standards or laws.
- The City-County Capital Account is designated for repairs identified in the five-year capital plan, or for major repairs to components of base systems or the facility. Up to $2 million per year of this fund can be used for more general Arena purposes, but only if a dollar-for-dollar match is deposited into the Capital Account. The matching funds deposited into the Capital Account can only be used for the same types of major repairs that qualify as expenditures from the City-County Capital Account.
- ArenaCo is required to fund all capital work relating to the arena. ArenaCo's obligation does not depend on available funds in the Capital Account or City-County Capital Account. If funds are not available from those sources, ArenaCo must fund the required work with other funds.

City and County Costs and Reimbursements

- ArenaCo will pay for dedicated staff in the Department of Planning and Development to facilitate the processing of permit applications.
- ArenaCo will pay for the City-County Representative.
- ArenaCo will also reimburse the City and County for up to $5 million in costs associated with development of the MOU, Transaction Documents, and other work leading to the opening of the Arena. This includes up to $150,000 for the cost of the City evaluating potential options for the KeyArena or the KeyArena site. The first reimbursement occurs at the time of the first public financing and monthly thereafter through the opening of the arena.
- During operation of the arena, ArenaCo is required to contract with City departments for any services provided by departments, such as traffic management and emergency medical staff that may be required.

Ownership of Arena Facility Improvements

- ArenaCo will install all tenant improvements.
- During the Arena Lease, ArenaCo will own all or a portion of tenant improvements, as to be defined in the Transaction Documents.

- Upon the termination of the Arena Lease or its extensions, all tenant improvements (excluding NBA or NHL team owned equipment) will become the property of the City and County. The condition of these improvements must be consistent with the operating standards and in a condition suitable for uninterrupted use. However:
    - At the termination of the Arena Lease or its extensions, the City and County may require that ArenaCo purchase the facility and site for $200 million; and
    - At the termination of the Arena Lease or its extensions, may choose to purchase the site for the greater of (a) $200 million or (b) the cost of the first installment increased by the consumer price index, but this purchase is conditioned upon the commitment to build a new arena to replace the then aging facility.
    - In addition, if ArenaCo does not exercise this purchase option and the City does not choose to force a sale, then the City can require that ArenaCo demolish the Arena.

KeyArena

- Prior to completion of the project, the NBA and NHL franchises will have the option to play their home games at KeyArena.
- In this event, ArenaCo will make improvements to KeyArena related to this interim use. Improvements that are permanent in nature become the property of the City. These may include modernization of telephone, data and broadcast backbones of the arena, in addition to renovation of some spaces in KeyArena.

Other Provisions

- City-County Representative can deny names for the facility that violate the standard of good taste or references to other states or municipalities other than Seattle or King County.
- Subject to its ability to obtain applicable rights and approvals, the NBA franchise will use the name “Seattle Supersonics”.
- Terms may be mutually modified in the future to take advantage of tax benefits.
- ArenaCo and affiliated NHL and NBA teams must be domiciled in Seattle for tax purposes.
- ArenaCo agrees to enter into labor peace or project labor agreements.
- ArenaCo commits to using the City’s Inclusion Plan as guidance for use of Women and Minority business Enterprises on the Project.

Inter-local Agreement (ILA)

Overview

- Binding agreement between the City and County.
- Identifies relative obligations between the City and County as they relate to the MOU with ArenaCo.
- Terminates upon the latter of the Arena Lease or when all public financing is retired or defeased.

City Responsibilities

- The City will be responsible to appoint and supervise the City-County Representative in consultation with the County and will be responsible for the day-to-day decision making with respect to the arena. The City can also replace the City-County Representative.
- The City is responsible to issue the call for bids for the project.
- The City will acquire title to the land and ground lease the land to ArenaCo as provided for in the MOU.
- The City will be the lead party with respect to reviews and approvals relating to design and construction.
- The City is responsible to pay nominal rent to ArenaCo under the terms of the lease-purchase between the Commencement Date and the Transfer Date. Those payments are credited against the City's share of the second installment of public financing.
- The City will administer a common fund that will hold City and County revenues attributable to the project and rent payments from ArenaCo. This is the "Arena Revenue Account".

City and County Joint Responsibilities

- The City and County will both enter into a lease-purchase agreement with ArenaCo, assuming they are the winning bidder in the call for bids. On the Commencement Date, the City and the County become tenants in common in the leasehold estate in the arena with ownership in proportion to their anticipated shares of public financing.
- On the Transfer Date, the City and County will jointly exercise the option to purchase the facility or will cause a trustee to prepay the full lease amount. Ownership shares under both scenarios are in proportion to the share of public financing.
- In the event that the Arena Lease is terminated prior to the end of the initial term, the City and County become responsible for costs and will contribute proportionately based on their relative shares of public financing.
- The City and the County both dedicate all Arena Tax Revenues to the benefit of the project for the duration of the Arena Lease, except for those legally restricted as to their use (other than parking taxes attributable by contract to the arena). These taxes will be deposited into the Arena Revenue Account. Funds in the Arena Revenue Account are used to pay taxable debt service by the City and the County.

Public Financing

- The City will finance the public acquisition of the project site for the fair market value of the site, but not to exceed $100 million. This is the First Installment of public financing.
- The Second Installment of public financing will consist of financing from both the City and the County and it is anticipated to involve both taxable and tax-exempt financing from each party.
  - If conditions related to an NHL franchise are not yet satisfied as of the Transfer Date, then the relative shares of City and County for the Second Installment of public financing are:
    - The County is limited to $5 million plus 40% of any additional debt issued to "fill" the SODO Transportation Infrastructure Fund.
    - The City in an amount that, in combination with the First Installment and the County's contribution that shall not exceed $145 million.

        - Of this $145 total, no more than $120 million will be used for the Arena. Up to $25 million may be issued to “fill” the SODO Transportation Infrastructure Fund. Of this up to $25 million figure, 40% will be issued by the County and 60% by the City.
    - If conditions related to an NHL franchise are satisfied as of the Transfer Date, then the County Obligation will be $80 million and the City obligation will be the amount that, in combination with the first installment, totals $120 million.
- In the event that the County’s participation in the public financing does not exceed $5 million plus its share of the up to $25 million needed to “fill” the SODO Transportation Infrastructure Fund , the County may determine not to hold an ownership interest in the arena site, facility, or leasehold and may instead assign its rights to the City.
- City and County debt structures will have the same basic structure and neither structure can be modified without the consent of the other party.
- It is anticipated that debt supported by property taxes will be issued as tax-exempt debt, and in that event those revenues are not deposited into the Arena Revenue Account.
- Neither party guarantees the debt of the other party.

City-County Advisory Board

- The City and County will appoint members to an Advisory Board that will provide oversight of the administration of the Arena Fund and will make recommendations to the City and County officials on arena-related matters.
- The City-County Representative will provide reports to the Advisory Board at least quarterly on the status of all expenditures and fund balances. Monthly updates of related revenues are also called for.
- The Advisory Board will consist of four representatives, one from the executive and legislative branches of the City and County. Representatives will be elected officials or employees of the City or County.
- If the County financial contribution is limited to $5 million, then the County will have only one representative on the Advisory Board, appointed by the County Executive.
- The Mayor of the City may take action or direct the City-County Representative to take action on unforeseen issues if an immediate decision is required and notice is promptly given to Advisory Board representatives.

Cost Reimbursement

- The City and County will be reimbursed by ArenaCo for up to $5 million for pre-development costs, exclusive of fee associated with permit review and costs for the City-County Representative. If the total of related costs exceeds $5 million, each party’s respective share is reduced proportionately.

Default

- In the event of default, the City and County are entitled to amounts of Arena Tax Revenues and Base Rent proportionate to current debt service. Except that after year 15 of the Arena Lease, to the extent necessary to pay current debt service, the County is entitled to up to half of these revenue streams, and the City is entitled to at least half of these revenues streams.

- Additional rent and withdrawals from the Reserve Account, Capital Account and City-Capital Account are allocated first in any year to support County current debt service as needed, and then to support City current debt service as needed.
- Amounts received in connection with other security interests from ArenaCo or its affiliates are distributed between the City and County in proportion to the their outstanding public obligations.

Ben Noble
FAS Arena MOU and ILA FISC ATT B – Project Taxes by Year
September 11, 2012
Version # 4

	CITY TAXES						COUNTY TAXES			
	Property Tax Revenue Increment	Sales Tax Revenue Increment	Admissions Tax Revenue Increment	B&O Tax Revenue Increment	Leasehold Excise Tax Revenue Increment	Total City Taxes	Property Tax Revenue Increment	Sales Tax Revenue Increment	Leasehold Excise Tax Revenue Increment	Total County Taxes
Total										
Nominal	**$27,395,046**	**$9,427,875**	**$176,186,700**	**$38,492,409**	**$7,026,548**	**$258,528,579**	**$8,315,099**	**$1,663,743**	**$3,513,274**	**$13,492,116**
NPV	**$11,565,202**	**$4,875,106**	**$71,770,543**	**$15,686,346**	**$2,942,363**	**$106,839,561**	**$3,510,335**	**$860,313**	**$1,471,181**	**$5,841,830**
Year										
1	-	531,250	-	-	-	**531,250**	-	93,750	-	**93,750**
2	195,000	1,593,750	-	-	-	**1,788,750**	59,188	281,250	-	**340,438**
3	781,950	177,795	4,543,998	993,878	202,000	**6,699,620**	237,342	31,376	101,000	**369,717**
4	789,770	181,351	4,621,629	1,010,749	204,020	**6,807,518**	239,715	32,003	102,010	**373,728**
5	797,667	184,978	4,700,591	1,027,908	206,060	**6,917,205**	242,112	32,643	103,030	**377,786**
6	805,644	194,272	4,780,909	1,046,774	208,121	**7,035,720**	244,534	34,283	104,060	**382,877**
7	813,700	196,877	4,862,604	1,064,227	210,202	**7,147,611**	246,979	34,743	105,101	**386,823**
8	821,837	196,300	4,945,702	1,081,159	212,304	**7,257,302**	249,449	34,641	106,152	**390,242**
9	830,056	200,226	5,030,225	1,099,517	214,427	**7,374,451**	251,943	35,334	107,214	**394,491**
10	838,356	210,286	5,116,200	1,119,720	216,571	**7,501,133**	254,463	37,109	108,286	**399,858**
11	846,740	213,106	5,203,649	1,138,389	218,737	**7,620,621**	257,007	37,607	109,369	**403,983**
12	855,207	212,481	5,292,600	1,156,490	220,924	**7,737,703**	259,577	37,497	110,462	**407,536**
13	863,759	216,731	5,383,078	1,176,132	223,134	**7,862,834**	262,173	38,247	111,567	**411,987**
14	872,397	227,620	5,475,109	1,197,766	225,365	**7,998,258**	264,795	40,168	112,683	**417,646**
15	881,121	230,673	5,568,721	1,217,737	227,619	**8,125,870**	267,443	40,707	113,809	**421,959**
16	889,932	229,997	5,663,940	1,237,088	229,895	**8,250,851**	270,117	40,588	114,947	**425,652**
17	898,831	234,596	5,760,793	1,258,104	232,194	**8,384,519**	272,818	41,399	116,097	**430,315**
18	907,820	246,384	5,859,311	1,281,272	234,516	**8,529,302**	275,547	43,479	117,258	**436,284**
19	916,898	249,688	5,959,520	1,302,635	236,861	**8,665,601**	278,302	44,063	118,430	**440,795**
20	926,067	248,956	6,061,451	1,323,323	239,229	**8,799,026**	281,085	43,933	119,615	**444,633**
21	935,328	253,935	6,165,132	1,345,809	241,622	**8,941,825**	283,896	44,812	120,811	**449,519**
22	944,681	266,694	6,270,595	1,370,620	244,038	**9,096,627**	286,735	47,064	122,019	**455,817**
23	954,128	270,270	6,377,869	1,393,473	246,478	**9,242,218**	289,602	47,695	123,239	**460,536**
24	963,669	269,478	6,486,987	1,415,591	248,943	**9,384,668**	292,498	47,555	124,472	**464,525**
25	973,306	274,867	6,597,980	1,439,650	251,433	**9,537,235**	295,423	48,506	125,716	**469,645**
26	983,039	288,678	6,710,880	1,466,222	253,947	**9,702,765**	298,377	50,943	126,973	**476,294**
27	992,869	292,549	6,825,721	1,490,669	256,486	**9,858,294**	301,361	51,626	128,243	**481,231**
28	1,002,798	291,691	6,942,535	1,514,316	259,051	**10,010,391**	304,375	51,475	129,526	**485,375**
29	1,012,826	297,525	7,061,358	1,540,058	261,642	**10,173,409**	307,419	52,504	130,821	**490,744**
30	1,022,954	312,474	7,182,223	1,568,516	264,258	**10,350,425**	310,493	55,142	132,129	**497,764**
31	1,033,183	316,664	7,305,166	1,594,668	266,901	**10,516,583**	313,598	55,882	133,450	**502,930**
32	1,043,515	315,736	7,430,223	1,619,950	269,570	**10,678,994**	316,734	55,718	134,785	**507,237**

Ben Noble
FAS Arena MOU and ILA FISC ATT C – Arena Finance Model Output Summary
September 11, 2012
Version # 4

ARENA FINANCING - SAMPLE OUTPUT FROM MODEL

City/County Revenues	Annually	Nominal (Over Lease)	NPV (Over Lease)	% of Total
City Direct Taxes	$ 6,699,620	$ 264,597,141	$ 110,482,538	55%
County Direct Taxes	$ 369,717	$ 13,347,631	$ 6,013,730	3%
Subtotal - Direct Taxes	**$ 7,069,337**	**$ 277,944,771**	**$ 116,496,269**	**58%**
Base Rent	$ 1,000,000	$ 32,000,000	$ 14,904,198	7%
Imputed Additional Rent	*As Needed*	$ 156,766,083	$ 68,759,260	34%
Subtotal - Rent	***As Needed***	**$ 188,766,083**	**$ 83,663,458**	**42%**
Total Revenues	***Covers Financial Obligations***	**$ 466,710,855**	**$ 200,159,726**	**100%**

NOTE: Additional rent in any given year will cover any gap between City / County financial obligations and the total of taxes and base rent.

Tax Revenue Detail	Annually	Nominal (Over Lease)	NPV (Over Lease)	% of Total
CITY TAX REVENUES				
Property Tax	$ 781,950	$ 29,513,486	$ 11,917,700	11%
Sales Tax	$ 177,795	$ 10,088,158	$ 4,984,916	5%
Admissions Tax	$ 4,543,998	$ 191,430,956	$ 74,306,873	67%
B&O Tax	$ 993,878	$ 41,817,877	$ 16,239,626	15%
Leasehold Excise Tax	$ 202,000	$ 7,573,802	$ 3,033,423	3%
TOTAL	**$ 6,699,620**	**$ 280,424,279**	**$ 110,482,538**	**100%**
COUNTY TAX REVENUES				
Property Tax	$ 237,342	$ 8,958,100	$ 3,617,327	60%
Sales Tax	$ 31,376	$ 1,780,263	$ 879,691	15%
Leasehold Excise Tax	$ 101,000	$ 3,786,901	$ 1,516,712	25%
Total	**$ 369,717**	**$ 14,525,264**	**$ 6,013,730**	**100%**