

**Overview and Initial Issues Identification  
SEATTLE CENTER**

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*Expenditures/Revenues*  
(rounded to nearest \$1,000)

	<b>2012 Adopted</b>	<b>2013 Proposed</b>	<b>% Change '12 to '13</b>	<b>2014 Proposed</b>	<b>% Change '13 to '14</b>
<b>Expenditures by BCL</b>					
Access	\$1,135,000	\$1,209,000	6.5%	\$1,249,000	3.3%
Administration	\$6,921,000	\$6,893,000	-0.4%	\$7,170,000	4.0%
Campus Grounds	\$11,560,000	\$11,679,000	1.0%	\$12,045,000	3.1%
Commercial Events	\$942,000	\$892,000	-5.4%	\$946,000	6.1%
Community Programs	\$2,037,000	\$2,060,000	1.1%	\$2,078,000	0.9%
Cultural Facilities	\$213,000	\$221,000	3.8%	\$229,000	3.8%
Debt	\$136,000	\$135,000	-0.8%	\$126,000	-6.2%
Festivals	\$715,000	\$1,482,000	107.1%	\$1,506,000	1.6%
Judgment and Claims	\$932,000	\$603,000	-35.3%	\$705,000	17.0%
KeyArena	\$5,801,000	\$6,297,000	8.6%	\$6,613,000	5.0%
McCaw Hall	\$4,069,000	\$4,475,000	10.0%	\$4,207,000	-6.0%
<b>Total Expenditures</b>	<b>\$34,462,000</b>	<b>\$35,945,000</b>	<b>4.3%</b>	<b>\$36,876,000</b>	<b>2.6%</b>
<b>Total FTEs</b>	<b>245.12</b>	<b>241.62</b>	<b>-1.4%</b>	<b>241.62</b>	<b>0.0%</b>
<b>Revenues</b>					
General Subfund	\$12,876,000	\$12,981,000	0.8%	\$13,466,000	3.7%
Other Revenue Sources	\$21,586,000	\$22,964,000	6.4%	\$23,410,000	1.9%
<b>Total Revenues</b>	<b>\$34,462,000</b>	<b>\$35,945,000</b>	<b>4.3%</b>	<b>\$36,876,000</b>	<b>2.6%</b>

**Introduction:**

The 2013 Proposed Budget for Seattle Center is nearly \$36 million and reflects a 4.3% increase (\$1.5 million) over the 2012 Adopted Budget. In 2014, Seattle Center's Proposed Budget rises an additional 2.6% (\$931,000) to about \$36.9 million. These changes are largely due to expected inflationary and other cost changes associated with sustaining Seattle Center's existing lines of business over the next two years. Under the Proposed Budget, the General Subfund would provide about 36% of Seattle Center's operating budget in both 2013 and 2014. This is consistent with the annual level of General Subfund support Seattle Center has received in recent years.

A total of 3.5 FTE would be eliminated in 2013 as part of Seattle Center's budget proposal. The reductions include the abrogation of one vacant full-time position and the reduction of three filled positions from full-time to half-time. Additionally, responsibility for funding the full-time Director position at the Seattle Center Foundation would transfer from Seattle Center to the Foundation. This change is reflected as an abrogation in the 2013-2014 Proposed Budget.

***Proposed Seattle Center Position Abrogations and Reductions, 2013 Proposed Budget***

<b>Position</b>	<b>Action</b>	<b>FTE Reduction</b>	<b>Cost Savings</b>
Accounting Technician 1 – Admissions	Abrogation (Vacant Position)	1.0	\$64,000
Administrative Specialist 2 – Catering Coordinator	Reduction	0.5	\$30,000
Manager 1 – Admissions Manager	Reduction	0.5	\$52,000
Manager 2 – Armory Manager	Reduction	0.5	\$61,000
Strategic Advisor 3 – Seattle Center Foundation Director	Abrogation (Transfer to Foundation)	1.0	\$156,000
	<b>TOTAL</b>	<b>3.5</b>	<b>\$363,000</b>

Seattle Center’s 2013-2014 budget proposal makes no assumptions about a near-term return of the National Basketball Association (NBA) to Seattle or the possible scheduling of professional men’s basketball games at KeyArena while a new facility is developed in SoDo. Thus, if such a scenario does play out over the next two years, any additional revenues or expenditures associated with hosting an NBA team on the Seattle Center campus would be above and beyond the projections included in the Proposed Budget.

The Proposed Capital Improvement Program (CIP) would provide almost \$9 million for Seattle Center in 2013 and around \$5.2 million in 2014, for an average of a little more than \$7 million per year. Over the last seven years, Seattle Center’s average annual CIP allocation has been slightly higher, at \$8.1 million. This difference is largely due to the intermittent use of Limited-Tax General Obligation (LTGO) bonds to support special projects, including major renovations of the monorail and Armory. The level of capital funding proposed for 2013 and 2014 would generally be used to maintain, repair, and make modest improvements to Seattle Center’s existing assets. The larger proposed allocation in 2013 would also support the following short-term projects:

- High-priority access improvements identified pursuant to the Americans with Disabilities Act (ADA) – \$1.5 million.
- Private contribution from Center Art LLC for the construction of a children’s play area on the former Fun Forest site – \$1 million.
- Renovation of existing meeting rooms in the Armory. This work is intended to improve a set of conference rooms in the Amory to make them more attractive, rentable spaces in advance of KEXP’s planned occupancy of the Northwest Rooms – \$700,000.
- Installation of an automated paid parking system at the 1<sup>st</sup> Avenue North Garage – \$480,000.

Using the City’s 2003 Asset Preservation Study as a baseline, Seattle Center and CBO estimate the current target CIP allocation for the campus at about \$9 million per year.

Three pieces of legislation are associated with Seattle Center’s 2013-2014 budget proposal. They may be summarized as follows and will be discussed further during Round 1.

1. *Parking Rate Ordinance (Council Bill 117630)* – This legislation would eliminate the distinction between “event” and “nonevent” daily parking to allow Seattle Center more

flexibility to respond to demand, competition, and other market factors. It would also establish a permitted range of daily parking rates that is based on existing rates and extends from \$1 for the first hour (the current minimum rate for nonevent parking) to up to \$30 for ten hours (the current maximum rate for event parking). Central Staff has not identified any potential issues related to the content of this legislative proposal.

2. *Facilities Fees Ordinance (Council Bill 117631)* – This bill would authorize the biannual update to Seattle Center’s fee schedule for facility rentals. In addition to expanding the existing range of fees Seattle Center could charge for the use of certain facilities on the campus, the legislation would also allow Seattle Center to apply use fees and surcharges to more event types and facilities. Central Staff has not identified any potential issues related to the content of this legislative proposal.
3. *Interfund Loan Extension Ordinance (Council Bill 117614)* – This legislation would increase the value of Seattle Center’s current loan from the City’s Consolidated Cash Pool from \$3 million to \$3.5 million and extend the term of the loan by an additional five years, to December 31, 2017. More information about this legislative proposal is provided below, under “Identified Issues.”

### **Identified Issues:**

Central Staff have identified the following elements of Seattle Center’s 2013-14 Proposed Budget for further review by Councilmembers.

#### **1. Interfund Loan and Ongoing Financial Challenges**

In June 2011, the City Council passed Ordinance 123644, which authorized a \$3 million loan to Seattle Center from the City’s Consolidated Cash Pool. The legislation specified that full repayment of the loan would be due by no later than December 31, 2012. The loan was intended to place Seattle Center in a positive cash position after some of its 2010 and 2011 collected revenues fell short of budgeted amounts. Some of the factors contributing to Seattle Center’s financial challenges included the following:

- Nonpayment of rent by nonprofit tenants affected by the economic downturn;
- Loss of title sponsorship revenue for KeyArena; and
- Reduced rent revenues for the portion of the campus previously occupied by the Fun Forest. (These revenues increased when the Chihuly exhibition opened to the public in the spring of 2012.)

Last fall, as part of the 2012 budget process, the Council also passed a Statement of Legislative Intent (SLI) that called on Seattle Center to work with the City Budget Office (CBO) to develop a repayment plan for the interfund loan and provide regular updates to the Council on repayment progress. The repayment plan was delivered to the Council in April and the first of two repayment progress reports was submitted in September. The second progress report is due by December 31, 2012.

In its responses to the SLI, Seattle Center has made clear it will not be in a position to repay its loan by the end of this calendar year. And, in addition to the \$3 million already borrowed, the loan repayment progress report presented to the Council in September projects Seattle Center will end

2012 with a budget shortfall estimated at \$420,000, including \$262,000 that would be set aside for the McCaw Hall reserve fund. This expected shortfall is due to the negotiated write-off of a portion of the Seattle Children's Museum's accumulated back rent (approved by the Council via Ordinance 123791), costs associated with rebranding and bringing multiple new vendors to the Armory, and expenses related to The Next 50 celebration, among other issues. Although \$420,000 is not an insignificant amount, Councilmembers should be aware that Seattle Center's financial outlook has actually improved since April 2012. At that time, CBO projected Seattle Center could reasonably expect to see a year-end shortfall of more than \$1 million.

Council Bill 117614, which was submitted to the Council as part of Seattle Center's budget proposal, would increase the value of Seattle Center's current interfund loan from \$3 million to \$3.5 million and extend its term by an additional five years, to December 31, 2017. CBO expects passage of the legislation will provide Seattle Center with the resources and flexibility it needs to cover its near-term financial obligations. Approval is also necessary to keep Seattle Center in a positive cash position and in compliance with codified City loan policies. However, the Council may want to consider taking further steps in 2013 to evaluate and address the ongoing financial challenges facing Seattle Center.

### ***Options***

- a. Pass Council Bill 117614 and direct Central Staff to work with the Libraries, Utilities, and Center (LUC) Committee Chair to identify options and cost estimates for moving forward in 2013 with a comprehensive study of Seattle Center's existing costs and revenue sources. The analysis could be completed by an independent consultant and potentially be funded via the Council's consulting budget. The primary goal of this effort would be to help establish a revised baseline operating budget for Seattle Center that is practical, sustainable, and supported by new and expanded sources of revenue. This work could also serve as a precursor to, and help inform, a study of possible future uses for KeyArena, as described below.
- b. Pass Council Bill 117614 only.

## **2. KeyArena**

As was noted previously in this memorandum, the 2013-2014 Proposed Budget for Seattle Center makes no assumptions about a near-term return of the NBA to Seattle or the possible scheduling of professional men's basketball games at KeyArena while a new facility is developed in SoDo. If KeyArena does ultimately play short-term host to an NBA team, the associated income that could accrue to Seattle Center in the form of parking, concessions, sponsorship, and ticketing revenues could help relieve some of its more immediate financial burdens, most notably its interfund loan. However, once the NBA decamps to the new arena, the economic viability of KeyArena could be severely compromised.

Recognizing this reality, the City and King County entered into a Memorandum of Understanding (MOU) with the developer of the proposed SoDo arena (ArenaCo) that makes ArenaCo responsible for reimbursing the City for up to \$150,000 of the cost of a study to evaluate potential future use options for KeyArena and the KeyArena site. Given ArenaCo's strong interest in bringing an NBA team to Seattle as soon as possible, Councilmembers may want to consider beginning work on the evaluative study in 2013.

### ***Options***

a. Add \$150,000 to the Legislative Department's 2013 budget (to be reimbursed later by ArenaCo) to support a comprehensive economic analysis and planning study to inform future decisions about KeyArena and the KeyArena site. Oversight of this work would be provided by the Council's LUC Committee with assistance from a small working group. If Councilmembers are interested in pursuing this option, Central Staff will work with the LUC Committee Chair to develop a preliminary workplan for discussion during Round One.

b. No action.

### **Other Changes that Do Not Warrant Analysis as "Issues":**

Although not identified by Central Staff as issues warranting significant additional analysis, the following, more minor elements of Seattle Center's budget proposal may also be of interest to Councilmembers.

#### **1. Teen Tix Transition**

Teen Tix is a rush ticket program administered by Seattle Center that allows youth from ages 13 to 19 to purchase \$5, day-of-show tickets for a variety of cultural and performing arts events. Participating organizations include, but are not limited to, the ACT Theatre, Pacific Northwest Ballet, Seattle Art Museum, Seattle Symphony, Northwest Film Forum, and Seattle Opera. In 2011, approximately 7,500 tickets were purchased through the Teen Tix program.

The 2013-2014 Proposed Budget calls for transitioning the management of Teen Tix to a viable nonprofit organization in 2013 and removing it from Seattle Center's public program offerings in 2014. Such a transition would provide Seattle Center with \$40,000 in 2014 budget savings. The savings would come from the elimination of the contract position that is responsible for coordinating the program.

#### **2. Transfer of Funding Responsibility for the Seattle Center Foundation Director Position**

Seattle Center's operating budget has traditionally supported the Seattle Center Foundation Director position. The current annual cost of funding this full-time position is \$156,000. The Foundation is a 501(c)3 nonprofit organization established in 1977 to provide fundraising support for Seattle Center. In addition to the Director position, the Foundation currently employs two part-time staff. Both are paid directly by the Foundation. (For The Next 50, the Foundation temporarily increased its staffing level to six full-time employees.) Since 2008, the Foundation has provided Seattle Center with more than \$1.1 million in direct revenues and raised \$6 million to support enhanced programming on the campus, including \$2 million for this year's The Next Fifty celebration.

The 2013 Proposed Budget would transfer financial responsibility for the Foundation Director position to the Foundation. In exchange, Seattle Center would make the campus storefront previously occupied by the Frontier Gallery available to the Foundation for a reduced annual rent of \$15,000 per year. The Foundation would operate the space as a retail shop and use the net profits to help cover its administrative costs, including the salary of its Director. Seattle Center estimates it could rent the Frontier Gallery space to a commercial vendor for about \$100,000 annually; however, the loss of \$85,000 in potential rent revenue would be offset by the estimated \$156,000 in savings associated with removing the Foundation Director position from Seattle Center's payroll. Thus, implementing this proposed change would provide a net annual benefit to Seattle Center of about \$71,000.

### **3. Change in Billing Practices for Festivals**

Projected expenditures from Seattle Center's Festivals Budget Control Level (BCL) are expected to more than double between 2012 and 2013, rising from \$715,000 to nearly \$1.5 million. A comparable boost to the revenues Seattle Center collects from festivals is also expected. One cause of these increases is a recent change to Seattle Center's billing practices for festivals. More specifically, some charges by third party vendors that were previously billed directly to festival producers are now billed to Seattle Center instead. Seattle Center then adds those charges to the final invoices they submit to festival producers. Over the long-term, Seattle Center expects this change in practice will allow them to better estimate the total cost of producing large events on the campus and improve their negotiating position with festival producers. Seattle Center also expects this change to be budget-neutral over the long-term; however, Councilmembers should be aware that Seattle Center may need to request supplemental appropriation authority in the 2012 Fourth Quarter Supplemental Budget Ordinance to address potential cash flow challenges that could arise as this practice, which was not accounted for in the 2012 Adopted Budget, is implemented. The supplemental request would be revenue-backed.