SODO Arena

CITY COUNCIL PRESENTATION #5

GOVERNMENT PERFORMANCE AND FINANCE COMMITTEE

JUNE 29, 2012

I-91

I-91

- BACKGROUND
- APPLICATION TO PROPOSAL
- ANALYSIS
- SUMMARY

Background

History

Text

What it Means

- Passed in 2006
- In response to use of public funds for redevelopment of Key Arena, a public facility, which was to then be leased to a for-profit sports organization

Background

History

Text

What it Means

- "Consideration for the value of goods, services, real property or facilities provided or leased by the City of Seattle to for-profit professional sports organizations…must be at or above the fair value of the goods, services, real property or facility being provided or leased.
- Fair Value is defined as "no less than the rate of return on a U.S. Treasury Bond of 30 years duration at the time of inception"
- "Return shall be computed on the net cash on cash return"

Background

History

Text

What it Means

- Requires fair return to City for use of public assets for professional sports
- Return defined as rate on a 30 Year Treasury Bond – Currently 2.7%
- Return determined as the Cash on Cash return

$$\frac{\text{Annual Cash Flow}}{\text{Total Cash Invested}}$$

Application to Proposal

- City is not contributing any cash; public investment is all borrowed funds

$$\frac{\text{Annual Cash Flow}}{\text{Total Cash Invested}} = \text{N/A}$$

- "Cash on Cash" return calculation called for in I-91 cannot be directly applied

- Alternate approach required to evaluate proposal's return relative to 30-year treasury bond

Analysis

Approach

Cash Scenario

Debt Scenario

- Approach to alternate analysis of return:
  - Illustrate the relative strength of the revenue stream of the arena proposal versus a 30-year treasury return
  - Consider and compare the revenues based on an identical cash investment instead of using borrowed funds for both the arena proposal and alternatively a 30-year treasury
  - The relative strengths of the arena proposal vs. a treasury are more easily illustrated under a cash investment scenario, but the same concept can be applied to a borrowed funds approach as well.

Analysis

Approach

Cash Scenario

Debt Scenario

- Approach to alternate analysis of return:
  - Under the arena proposal, the City would have outstanding debt, which would be paid back each year over the duration of the lease, including interest.
  - Under the cash investment scenario, the City would have cash invested, which would be paid back each year over the duration of the lease, including interest.
  - Assume an identically structured investment to allow for easy comparisons.

Analysis

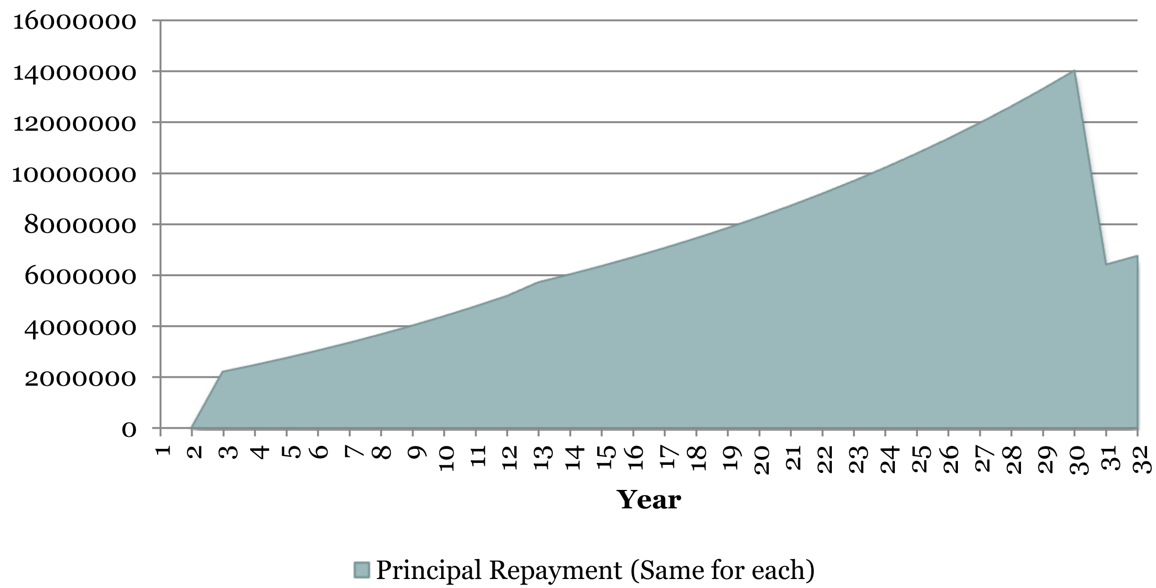
Approach

Cash Scenario

Debt Scenario

- Each year, a portion of revenues reflect a repayment of the principal invested. By the end of the term, all the principal has been repaid. Note that the full $200M is assumed here for illustration purposes, but could be scaled to isolate the City's $120M portion as well.
- This structure mirrors the paying down of debt under the borrowed scenario.

Annual repayment of principal invested (excludes interest)
Same for arena proposal and 30 year treasury



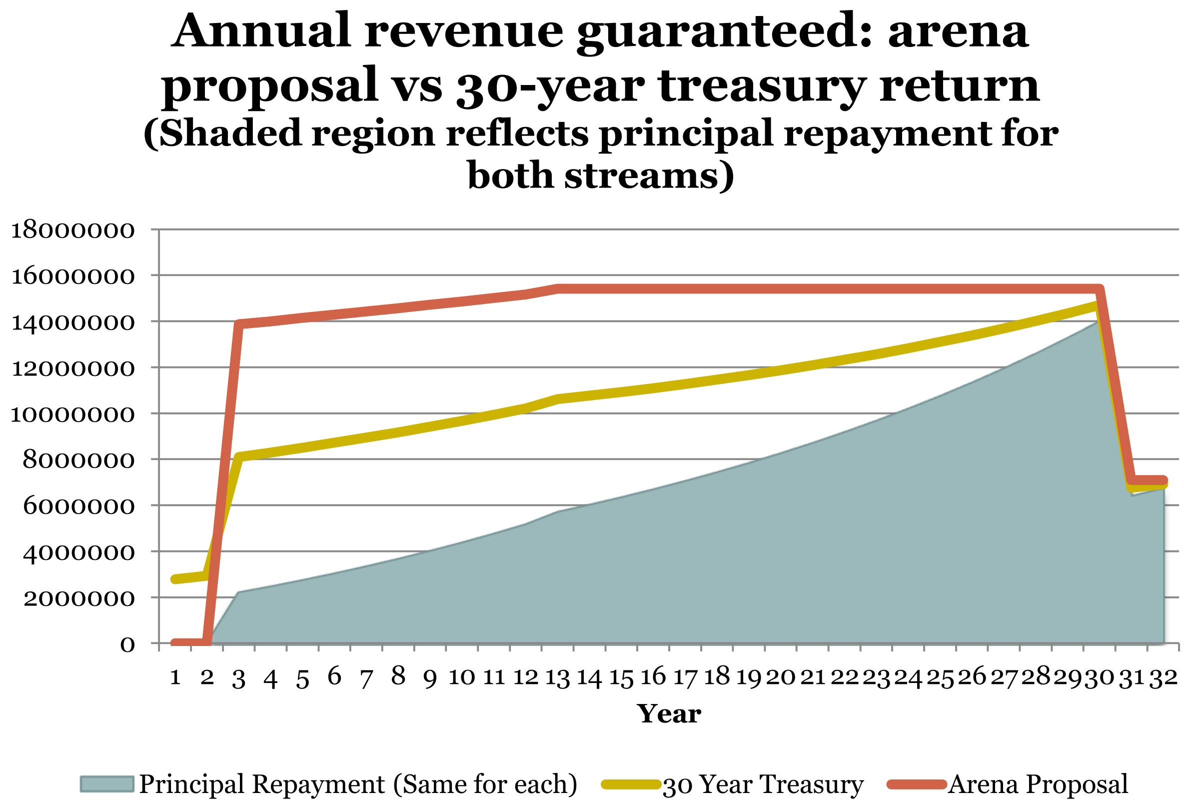
Analysis

Approach

Cash Scenario

Debt Scenario

- Below illustrates the revenue streams, including principal repayment, of the arena proposal and a treasury return.
- The shaded area is principal repayment for both scenarios.



Analysis

Approach

Cash Scenario

Debt Scenario

- Arena proposal secures more revenues that would be achieved with a treasury return, and results in ownership of real assets.

- Summary comparison of cash scenario.

Arena Proposal	Treasury Return
$221M nominal revenue	$117M nominal revenue
$115M NPV revenue	$63M NPV revenue
Principal repaid	Principal repaid
Land and Arena Owned	No ownership

- Borrowed Funds Analogous
  - The results of the cash comparison can be applied to a borrowed funds approach.
  - The only difference for each scenario would be the addition of debt service.
  - Since the principal amounts outstanding are the same for each scenario, that means the same amount of borrowed funds for each and also the same amount of debt service.
  - Since the debt service amounts would be the same, the impact to each return calculation would be the same.
  - The relative results then remain the same.

Summary

- Summary:
  - The return calculation called for in I-91 cannot be directly applied due to the nature of the City borrowing all funds involved, but the fair return requirement can be evaluated in alternate ways.
  - Reasonable alternate approaches to calculate the return indicate that the proposal exceeds a return that would be achieved with a 30-year treasury.
  - In addition, the City obtains a valuable real asset.
  - General fund resources are protected.