Seattle City Council

Frequently Asked Questions and Answers
About Revisions to the Memorandum of Understanding
Regarding the Proposed Arena

How is the *revised* memorandum of understanding (MOU) a better deal for the public?

The new agreement is better for the public because it creates new opportunities to address long-standing challenges at Seattle Center and in the SODO neighborhood in a manner that strongly protects City and County taxpayers. The new agreement:

- **Protects family-wage jobs** in Seattle's industrial, manufacturing and maritime economic sectors by funding freight mobility and other transportation improvements in SODO.
- **Recognizes that the City will undertake an area-wide planning process to strengthen land use protections for industrial lands**, including the creation of a Port Overlay District.
- **Significantly strengthens the legal and financial protections for taxpayers** and the City and County governments, including personal financial guarantees from the principal investor in ArenaCo, as well as additional security protection from ArenaCo and ParentCo.
- **Enhances the environmental review process** by requiring an examination of alternative sites, including the Seattle Center, and establishes that final City Council adoption of transaction documents will only come *after* the EIS process is fully completed.
- **Provides funding for a study of long-term options for the future of Key Arena** and Seattle Center.

In the original agreement proposed by the Mayor and delivered to Council on May 18, 2012, 100 percent of the taxes generated by the arena were dedicated to arena financing, with ArenaCo making up any shortfall. The new MOU sets aside $40 million of taxes generated by this project to a new SODO Transportation Infrastructure Fund and an additional $7 million of public funds for Key Arena. With these terms, the revised agreement represents a more appropriate balance of public and private benefits.

In addition, the agreement strengthens the funding reserve that backstops debt service payments and adds a new personal guaranty that protects the City and County governments from shortfalls in the revenues needed to pay debt service, and ensures that all outstanding debt will be repaid by the private investors should the Arena not prove to be financially viable. <u>These new provisions make certain that ArenaCo investors will bear ultimate responsibility for the arena's financial performance and add significant additional financial protections for the public investment in the project</u>.

What will the SODO Transportation Infrastructure Fund be used for and how is it funded?

The new SODO Transportation Infrastructure Fund will begin to address longstanding transportation problems in the SODO area. The fund will give <u>first priority</u> to protecting the operations of the Port of Seattle and improving freight mobility and <u>second priority</u> to projects that improve pedestrian safety, transit service and connectivity, and overall traffic management in the SODO area. *The fund is separate and distinct from any transportation infrastructure mitigation required of ArenaCo through the permitting and SEPA process, which remains ArenaCo's responsibility.* Funded initially with $40 million from the City and County, these funds will be used to leverage additional investments from other public and private partners, including the Port of Seattle and the state and federal governments.

How does the revised agreement better protect taxpayers and the City's and County's financial interest in the project?

The revised MOU includes several new significant protections for the public money involved in this project:

- **Personal Guaranty**: The principal owner will provide a personal guaranty for the City and County's annual debt payments, starting during construction of the new arena and continuing until all public debt has been retired. Should Arena construction not be completed, the principal owner will also guaranty to repurchase the land to be acquired by the City and County and ensure no financial loss to the local governments.

- **Guaranteed Sale Price in the Future**: The City and County can, at their sole discretion, require ArenaCo to purchase the land and facility at the expiration of the arena use agreement for $200 million.
- **Incentive for Arena Owners to Replace the Facility in the Future**: ArenaCo can, at its sole discretion, purchase the land and facility at the end of the arena use agreement for a price equal to the City and County's initial land purchase price as increased annually by CPI, but for no less than $200 million. If this transaction occurs, ArenaCo must also construct a new arena on the site (under the assumption that after 30 years the arena will reach the end of its functional life).
- **Protects the Public from Future Demolition Costs**: If ArenaCo does not extend the arena use agreement after the initial 30-year term, or exercise its purchase option, ArenaCo will be responsible for paying the demolition and removal costs on the aging arena, leaving the City with valuable, unencumbered land.
- **Security Reserves and Debt Service Coverage**: The new agreement requires ArenaCo to double the required Security Reserve if ArenaCo finances do not perform as expected. In the event of a default by ArenaCo, the City and County will have a first lien and first payment position on the assets in this account.
- **Operating Reserves**: As an extra layer of security, ArenaCo must keep cash on hand equivalent to three months of operating expenses in an Operations and Maintenance Fund.
- **Intercreditor Agreement**: The revised MOU defines the scope for an Intercreditor Agreement to be entered into by the City and County and private lenders to ArenaCo. This agreement will determine which entities have access to which streams of revenue should ArenaCo default on its obligations.
- **Independent Review of Business Plan**: The new agreement gives the City and County the authority to conduct an independent, third-party assessment of the financial assumptions underlying the planned construction and operations of the arena and the overall risks associated with both prior to the approval of the final Transaction Documents. The City and County will have access to the same information about ArenaCo and its business structure as the entity's private lenders.

Could the new agreement have a negative impact on the City's or County's fiscal health or financial ratings?

The City Council retained the services of external financial and legal advisors with expertise in municipal finances, major league sports finances, and municipal bonds. These experts were closely involved in the Council's deliberations and negotiations and provided counsel throughout the process. The strengthened legal and financial protections in the new agreement will provide strong assurances to the major credit rating agencies and bondholders that this project will not negatively affect the financial health of the City or County.

How does the new agreement address environmental review and the State Environmental Policy Act (SEPA)?

The new agreement requires analysis of alternative arena sites and makes clear that the City Council will not make a final determination to proceed with the project until the SEPA process is complete and any necessary mitigation is addressed.

Why does the new agreement include a possible increase in the total amount of public bonds issued under the NBA-only scenario from $120 to $145 million?

ArenaCo will receive no more than $120 million in the NBA-only scenario. In order to assure that there is adequate financing available for both the acquisition of the facility and to fill the **SODO Transportation Infrastructure Fund**, there is flexibility to issue up to $25 million in additional bonds, if necessary. Rent payments and Arena-generated tax revenues will be the only sources used to repay the additional debt.

How does this deal address concerns about gentrification and encroachment on industrial lands?

The new agreement includes a commitment from the City to begin an area-wide planning effort that would strengthen the dividing line between the Stadium Transition Area Overlay District and the rest of the Manufacturing Industrial Center. <u>New zoning policies such as the establishment of a **Port Overlay District** and regulatory changes to the stadium area could allow both industrial uses and stadium uses to thrive on their respective sides of this demarcation line</u>.

How does the agreement address concerns about traffic?

The SEPA review process will provide a more robust study of traffic impacts of a new arena in SODO and the other site or sites that are reviewed. The private investors will be responsible for undertaking and financing any mitigation efforts required by the SEPA analysis. In addition, the money dedicated for the SODO Transportation Infrastructure Fund ($40 million) will be used to improve the mobility of freight and other users in SODO, addressing problems that currently exist and are unrelated to a new arena. <u>The revised agreement also includes a provision that will give the City oversight and enforcement authority on the scheduling of events in the new arena and the existing stadiums to minimize conflicts that lead to increased traffic and pedestrian congestion</u>.

How does the agreement meet the requirements of Initiative 91?

By dedicating a portion of the new tax revenues generated by the arena project for the broader public purpose of the SODO Transportation Infrastructure Fund, the revised agreement provides the public with a significant return on its investment and thus satisfies Initiative 91. Also, and in addition to the other considerations provided by ArenaCo, including obligations related to rent, operations and maintenance and capital improvements, as well as ArenaCo's financial contribution towards construction of the arena, the City is guaranteed at least $200 million for its investment in the arena at the end of the arena use agreement.

What is the plan for Seattle Center and Key Arena?

The agreement creates a new $7 million Key Arena Fund and gives the City sole discretion over use of these funds. Separate from this fund, ArenaCo has agreed to reimburse the City for a study of long-term options for Key Arena and how that fits into the future of the Seattle Center. As in the original agreement, ArenaCo will also be responsible for making upgrades to Key Arena to host an NBA and potentially NHL team during the period of construction for the new arena.

What are the next steps?

The revised memorandum of understanding and inter-local agreement with King County will come before the City Council's <u>Government Performance and Finance Committee for a vote on Thursday, September 13, 2012 at 2 p.m</u>. After the committee acts, the City Council will consider the legislation on Monday, September 17 or Monday, September 24. If passed by the City Council, the MOU and inter-local agreement will be passed back to the County Council for their reconsideration and concurrence.