

KeyArena Subcommittee

Final Report and Recommendations

Executive Summary



February 15, 2006

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**For identification purposes only*

February 13, 2006

The members of the KeyArena Subcommittee (KAS) are pleased to submit our final report and recommendations.

Over the last five months, the KAS has examined the issues surrounding the future of the KeyArena as broadly and as thoroughly as we possibly could. We received excellent support, as well as reams of materials to review, from both Seattle Center staff and expert independent consultants. We also benefited by discussions with a broad variety of stakeholders including representatives of the Sonics/Storm and Thunderbirds Hockey, a concert promoter, KeyArena operations staff, and neighbors both on and off the Seattle Center campus.

In our study, we looked at the economic performance, physical characteristics, event mix, and funding history of arenas around North America, including current professional sports venues, former professional sports venues, and minor league arenas. Our recommendations are based upon our evaluation of the data we reviewed, the information and opinions from our varied resources, and the perspectives of the diverse voices on our committee.

In short, we learned a lot. To reflect what we have learned, we have endeavored to create a comprehensive report, with an Executive Summary of our findings and recommendations, more detailed discussion and data, and appendices of reference materials. Some highlights of what we have learned are the following:

- The KeyArena is integral to the mission, vision and financial sustainability of Seattle Center.
- Neither Seattle Center, KeyArena, nor KeyArena's anchor tenants can be financially successful as long as the existing construction debt remains an obligation of the building and of Seattle Center.
- Successful arenas hosting NBA basketball are significantly larger than the KeyArena - roughly double the square footage.
- The economic model for funding NBA only (no NHL tenant) arenas includes significant public funding. For the last six new NBA-only arenas, 80% of the funding was public.
- KeyArena, in its diverse programming, serves 1.2 million people annually from a multi-state geographic area and from all walks of life and interests.
- Arenas that have lost their major league sports tenant to a new arena in the same marketplace are either demolished, converted to other uses, or become second-tier arenas that do not have a strong record of economic success.
- Even without the Sonics/Storm, the KeyArena will require capital investments of at least \$20 million to be a competitive non-major league arena.

Our analysis included evaluation of a number of different options for future capital improvements. Each level of investment provided a set of facility improvements geared to address various user, visitor and operational needs. We asked tenants and staff to assess the impacts for those improvements that would directly or indirectly increase revenue generation and to identify which building users would benefit from the various improvements. While it is

important to assess the extent to which improvements will result in increased opportunities for the financial success of the KeyArena, the internal return on investment is only one element in the assessment of benefits, because public arenas, their tenants, and their impacts on the community extend well beyond the confines of the facility and its bottom line.

After consultation with our expert consultants about national experience and discussion among the committee, we conclude that the overall value of a major league public arena is the sum of the direct financial contribution from the facility and its tenants, the incremental economic activity that it brings to surrounding businesses and the region, the incremental tax revenues generated for local, county and state governments, the incremental private investment in businesses and housing in the surrounding areas, the national and international attention brought to the city and region through media attention and word of mouth of its visitors, and the incremental value brought to the important, but hard to quantify, perception of quality of life for a region.

The Findings, Principles and Recommendations of the KeyArena Subcommittee are included in the attached report. Our intent is that these recommendations help inform the policy deliberations of elected officials regarding the future of KeyArena.

First and foremost, for Seattle Center and the KeyArena to be financially successful, it is essential that the existing KeyArena construction debt (\$50 million in 2007) be removed as an obligation of Seattle Center. Currently, revenues from the KeyArena dedicated to retiring KeyArena bonds (which run through 2014) are \$2.7 million short of the annual debt service. This shortfall has, in part, been made up in cuts to personnel, operations and maintenance, and amenities of Seattle Center, and in part, by accumulating a significant deficit. Both of these results have a negative long-term impact on the health of Seattle Center and the ability of the Center to carry out its mission.

Second, KAS recommends a capital investment in KeyArena in the range of \$200 million in order to create a competitive and financially successful arena for NBA basketball and the other tenants and events that currently take place in KeyArena. While the proposed improvements will benefit all tenants and events of the KeyArena, the driver is professional basketball. Since the 1994-95 renovations of the KeyArena, the business model and economics of NBA teams have changed. Teams around the country have looked to modernizing their arena venues to drive new revenue streams beyond media and ticket sales. Typically, these modernized arenas are paid for by a combination of funding from the team, building patrons, and "visitor taxes" – lodging, dining, and car rental taxes. Bottomline – the ante has gone up and the model for funding today's NBA-only facilities includes substantial public investment.

If the Sonics/Storm do not remain as tenants of KeyArena and leave the region, we recommend a capital investment of at least \$20 million (in addition to the removal of the outstanding construction debt as an obligation of Seattle Center) for KeyArena to be a competitive, minor league arena. In the event the Sonics/Storm remain in this region and develop a new arena in another location, KAS recommends that the future of KeyArena be fully reevaluated, as experience from around the country shows that an arena that has lost a major league franchise which stays in the area, becomes a second-tier facility and struggles financially.

We hope our work and recommendations contribute to public deliberations on the role, benefits, and costs of the KeyArena as a multipurpose community facility and professional men's and women's basketball arena for the Sonics/Storm NBA franchise.

We conclude from our review of the data and experiences of cities around the country and from our own perspectives and experience in Seattle that the KeyArena and professional men's and women's basketball make a worthwhile positive contribution to our community. The future of KeyArena is a worthy public debate that should and can be informed by factual and analytical information – we hope our report helps inform the debate, a debate that ultimately must be driven by community values.

Finally, after studying this issue for five months, the KeyArena Subcommittee members believe that the future of KeyArena is of vital importance to Seattle Center, to this community and this region, and we urge all parties to this issue to move expeditiously forward toward a resolution.

We have appreciated the opportunity to serve our fellow citizens on the KeyArena Subcommittee, and we will make ourselves available to discuss our findings and recommendations.

Sincerely,



John Coney Jim Faulstich Richard Feldman Jim Hill
Louise Miller Martin T. O'Donnell Bryce Seidl

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A. EXECUTIVE SUMMARY – FINDINGS AND RECOMMENDATIONS

CHARGE TO KEYARENA SUBCOMMITTEE

The KeyArena Subcommittee (KAS) is a citizen committee charged with looking at two central questions regarding the future of KeyArena:

- 1. What changes and improvements in the KeyArena are critical to making it more competitive in the marketplace and financially successful for the benefit of Seattle Center and the KeyArena's anchor tenants/users?***
- 2. What does the operational and financial performance of the KeyArena look like for Seattle Center with and without the Sonics/Storm as an anchor tenant after 2010?***

In order to meet this charge, the KAS held ten meetings from October 2005 to February 2006 and worked with national experts in the fields of arena design and construction, and arena finances and funding. The Subcommittee took an in-depth look at other arenas around the country, both NBA and non-NBA arenas, asking: What are the characteristics of the market they are in, what are their physical characteristics, how was construction/renovation funded, who owns and operates them, how are revenues shared, and what is the financial structure of their lease? The KAS interviewed representatives of all the major users and event staff of KeyArena who worked with professional basketball, hockey, concerts, family shows, meetings, and other miscellaneous events. KAS reviewed a half-dozen or more conceptual renovation packages for KeyArena, ranging from \$20 million to \$200 million. Finally, KAS considered a future without the Sonics/Storm at the KeyArena, looking at the experience of former NBA arenas and other arenas with only minor league tenants.

SCOPE OF REPORT

The findings and recommendation of the KAS are included in this Report, which is organized into three parts:

Part 1: Executive Summary – Summary of Findings and Recommendations

Part 2: Full Report – Expanded Presentation of Findings and Recommendations

Part 3: Compilation of key reference documents and meeting minutes.
(on disk – Available upon request to Neal.Erickson@Seattle.Gov)

BRIEF HISTORY OF KEYARENA

The building now known as KeyArena was originally built for the 1962 Seattle World's Fair as the Washington State Coliseum and was paid for by the State of Washington. The Coliseum was designed by noted Seattle architect Paul Thiry, the lead architect for the World's Fair, and was home to the "World of Tomorrow" exhibit, which featured a glass-enclosed 150-passenger elevator called the "Bubbleator." After the Fair, the City purchased the Coliseum from the State for \$2.9 million, and the building underwent an 18-month conversion into a venue for sports, concerts and trade shows, including installation of a seating bowl. The building became known as the "Seattle Center Coliseum." An early tenant was the Seattle Totems of the Western Hockey League. In 1967, the Coliseum became the home of the Seattle SuperSonics ("Sonics"), an expansion franchise of the National Basketball Association (NBA). The Coliseum was a multipurpose arena that also hosted concerts, trade shows, circuses, and other family events.

In 1993, seven years after the infamous "rain-out" of a Sonics game in the Coliseum due to a failing roof, the City and the Sonics negotiated a revenue-sharing lease agreement designed to fund the

reconstruction of the aging, 30-year old Coliseum from building revenues, without dedicated public tax sources. This was unprecedented at the time for comparable new publicly-owned arenas. In the agreement the City received 80% of suite revenues, 60% of club seat revenues, 40% of concession revenues from non-Sonics events, and title sponsorship revenues. The City's share of revenues declined each year for ten years, under the theory that prices would go up, offsetting the percentage reductions, while the debt service on construction bonds would remain flat. The increasing percentages going to the Sonics would allow them to further invest in their team in order to stay competitive. In 1994, the City Council approved a 15-year agreement with the Sonics and authorized \$73.4 million in 20-year bonds for Coliseum construction. Construction began in June 1994 and was completed in October 1995, in time for the Sonics 1995-6 season. (The Sonics were out of the building for one season.) The lease agreement between the Sonics and the City expires September 30, 2010. The bonds for the renovation were 20 year bonds and repayment runs through 2014.

The impetus for the 1993 renovations to the 30-year old Coliseum was to modernize the arena and keep it competitive for multipurpose users and retain the NBA Sonics franchise as the anchor sports tenant. Increasing the capacity of the building within the same footprint and roofline required lowering the building by 35 feet. The superstructure of the old Coliseum was reused, the roofline and curtain wall structure were preserved, with most of the significant changes occurring below grade. The new building included locker rooms for the Sonics and Thunderbirds, dressing rooms for concerts, an off-set hockey floor, a permanent rigging grid for concerts, a club seating program and 58 suites ringing the bowl. The project also included a 650 stall parking garage south of the KeyArena. The total cost was \$104 million, with the Sonics contributing \$21 million for the build-out of concession areas, the courtside club, a new scoreboard, and a new practice facility on Seattle Center property near but not adjacent to the KeyArena. Renamed KeyArena as part of a 15-year title sponsorship agreement with KeyBank, KeyArena has attracted 12 million visitors since it opened in October 1995. Overall attendance at the KeyArena is about 1.2 million annually, and the Sonics/Storm account for annual audiences of about 600,000 people.

As part of the Sonics lease, the City and Sonics committed to a program of major maintenance and refurbishments of the KeyArena at the mid-point of the 15 year lease period with a City investment level of \$4.7 million (2003 dollars) and a Sonics investment level of \$1.0 million (2003 dollars). During this 2003 renovation process, the City and Sonics agreed to fund a concept study of possible major renovations to the building that would bring it up to current NBA standards and explore revenue generating enhancements and operational improvements needed by all tenants. In a national selection process, SRG Partnership and 360 Architects were chosen to lead this study, which resulted in the *KeyArena Concept Plan*, completed in 2004. The *KeyArena Concept Plan*, with an estimated total project cost of \$200 million (in 2005 dollars), was completed in January 2004 and has been the basis for the KeyArena Subcommittee's study of capital investment alternatives to keep the KeyArena competitive in the marketplace and financially successful for Seattle Center and anchor tenants.

KEYARENA CHALLENGES

While widely praised as an intimate venue with outstanding sightlines for basketball and other events, KeyArena has significant shortcomings and issues that affect the financial health of both Seattle Center and building users:

Original Funding Plan No Longer Working – From the City's perspective, for the first five years of operation, the original financing plan was successful, with the building making a profit on an operating basis, and with the City's share of revenues from Suites, Club Seats, and Title Sponsorship sufficient to cover debt service on the \$73.4 million in construction bonds. The City's aggressive goals and agreement with the Sonics to fund operations and debt without tax revenues worked for the first five years. Since 2001, due to a number of factors, including economic recession and competition from new venues (Safeco and Qwest), the building revenues to support debt service have fallen \$12 million short. At the same time, the Sonics report losing \$58 million since 2001.

KeyArena Debt a Drag on Seattle Center's Operating Budget – The KeyArena budget is part of the Seattle Center operating budget. So long as Seattle Center's operating budget has to carry the debt

service on KeyArena construction, the Seattle Center is not financially sustainable. Most of the growing deficit that Seattle Center has been carrying over the last several years is a result of KeyArena debt revenues falling short of the amount needed to cover the KeyArena debt service. This is harmful to the health and vitality, as well as the public perception, of Seattle Center.

KeyArena is Undersized -- At 368,000 square feet, KeyArena is the smallest arena in the NBA and is about one-half the average square footage of an NBA arena (700,000 to 750,000). The KeyArena's event floor, 35' below grade, presents unique challenges as the 1995 construction was constrained by the original building buttress footings. As a consequence, it is smaller than similar floors in other arenas, can only be accessed by an extremely steep ramp, has no loading dock and cannot provide event floor space available elsewhere for basketball, hockey, and concert operational needs and patron amenities.

KeyArena Has Low Revenue Potential in Comparison with Other NBA Arenas – KeyArena lacks the concourse size and overall square-footage to tailor spectator amenities to different communities of fans and to modernize concession offerings with fresh cooking. In addition, the KeyArena doesn't have the same modern menu of premium seating options that relate to today's market for basketball, minor league hockey, and concert-goers. KeyArena ranks 17 out of 18 NBA-only arenas in both revenue potential and actual revenue from premium seating.

Operational Inefficiencies – Severe space limitations for storage, building load-in and load-out, and back-of-house spaces required to host major concerts, family shows, circuses and other events make the building more expensive and less efficient to operate. This adversely affects KeyArena's financial potential because it adversely affects the cost to the promoter of playing the KeyArena.

Sonics/Storm Lease Expires in 2010 – The Sonics/Storm lease expires in 2010. They are seeking both a modernized competitive facility and a lease agreement that will enable them to be financially successful. The Sonics/Storm have stated they prefer to stay in Seattle at a renovated KeyArena and the owners need to have a plan for their future in place in 2006. Thus, the Sonics/Storm have also indicated they must explore other options for their future beyond the 2010 KeyArena lease term. Accordingly, the Sonics/Storm have indicated they are exploring relocating to a new arena elsewhere in the Seattle metropolitan area or in another part of the country.

KeyArena Construction Bonds Extend Through 2014 – The City's debt service obligations on KeyArena construction bonds extend through 2014. The current cost of relieving the City of debt related to the 1994 KeyArena construction is approximately \$54 million (as of 1/1/06), and at the end of the Sonics/Storm lease in 2010 will be approximately \$29 million.

WHAT WE HAVE LEARNED

Over the last five months of in-depth analysis of KeyArena and the arena industry nationwide, KAS has learned the following key facts that have helped to shape their recommendations:

- KeyArena is the smallest NBA arena in the country and has about one-half the total square feet of a modern NBA arena.
- Square footage translates into revenue opportunities, operating efficiencies, and the ability to adapt to ever-changing market conditions and public tastes.
- KeyArena has the smallest seating capacity among NBA arenas at 16,739, and has average attendance of 12,306 (2005-05).
- KeyArena has a more favorable split of lower bowl and upper bowl general seating – 51% lower bowl, than the average NBA arena, which has 45% of its seats in the lower bowl.
- The lack of space for operations and event loading at KeyArena adversely affects all events in the building, not just NBA basketball.
- The majority of funding for NBA arenas is public funding. Of the last six new, publicly-owned, NBA-only arenas, 80% of the funding has been public funding.

- KeyArena is the only major sports facility developed in Washington since 1995 without new tax revenue as a funding source (this includes the Spokane Arena and the Everett Events Center).
- Arena public funding comes from a wide range of sources, including hotel/motel taxes, rental car taxes, food and beverage taxes, parking and admission taxes, and sales taxes.
- There is significant public investment in major league sports facilities because governments judge that the public benefits of these facilities warrant public investment.
- Investments required to build competitive major league sports venues don't provide the level of direct return on investment that supports private investment alone.
- There are public benefits, including overall economic impact and contributions to the quality of life of a great city, which need to be considered in evaluating the investment of public funds in sports facilities.
- Two-thirds of Sonics/Storm season ticket holders live outside Seattle. One-quarter live outside King County. Last season one-fifth of single game ticket buyers over the Internet were from out of State.
- It would cost in the range of \$400 million and require significant new infrastructure to construct a new NBA arena elsewhere in the Seattle metropolitan area, and it would take two to four years longer to develop than a renovation of the KeyArena.
- Seattle is in the middle of NBA cities in terms of market demographics, but KeyArena is at or near the bottom in actual and potential revenue from premium seating products.
- The Sonics/Storm provide roughly 40-45% of KeyArena events each year, with the other 55-60% from concerts, hockey, other sports, family shows, and meetings.
- Arenas without a major league tenant can break even or better, provided they are not carrying debt service or are in direct competition with newer major league facilities
- The picture for former NBA arenas with a newer arena in the same marketplace is dismal. Most have been demolished or converted to other uses and those operating as arenas generally do so at a deficit.
- The length of the lease matters. Experience locally and nationally suggests that the "business" life of major league sports facilities is directly related to the term of the lease with its professional franchise. That is, teams increasingly look for major upgrades of their venues when they renew their lease in order to match the then competitive standard of other facilities.

KEYARENA ECONOMIC IMPACTS

Professor Bill Beyers of the University of Washington was retained to prepare an Economic Impact Assessment of Seattle Center as a whole and to provide a separate Economic Impact Assessment of the KeyArena. Professor Beyers has provided his preliminary results and his full report is expected shortly. While KAS did not have the results in time to review them in depth, we offer the conclusions of the economic impact assessment of KeyArena as important additional information to consider.

In Dr. Beyers words, his conclusion for the KeyArena is as follows:

"It is very clear from the data presented in this report that KeyArena is not only a vibrant location for sports and artistic activities in the City of Seattle, but it is also an important contributor to the economic base of the regional economy. It generates jobs and income for thousands of people locally, and draws hundreds of thousands of visitors each year from outside the local economy. KeyArena is clearly one of the main anchors of cultural activity at Seattle Center, and responses to six hundred surveys make it clear that KeyArena contributes significantly to the quality of life of citizens of the region." Dr. Bill Beyers, Professor, University of Washington

The following highlights reflected Dr. Beyers' assessment of KeyArena economic impacts:

- The spending of KeyArena patrons and businesses in 2005 created **\$353 million** in business activity, **3,252 jobs**, and **\$102 million in labor income** in King County.

- State and local governments receive **\$13.3 million in tax revenues** as a result of the business activity at KeyArena.
- 591 people are directly employed by businesses located at KeyArena, 35% have full time employment.
- The Study survey data indicate that sports at KeyArena attract the most ethnically diverse audiences at Seattle Center – 77% Caucasian and 23% combined Asian/Pacific Islander, African American, Latin/Hispanic, and Native American.
- KeyArena attracts visitors from outside the area -- 43% of KeyArena visitors come from outside King County, and over half of KeyArena concert goers are from outside King County.
- 1.1 million patrons attended KeyArena events in 2004-05 and spent \$118.3 million in relation to their visit to KeyArena.
- Key Arena businesses had revenues in 2005 of \$121.8 million, or a third of all business revenues at Seattle Center.
- **“New money” economic impacts yielded \$165 million in business activity, 1572 jobs, \$47.3 million in labor income, and \$6.5 million in tax revenues. These are benefits that would not occur without the KeyArena.**

While overall economic activity represented by KeyArena is a valid measure of the total economic impact of KeyArena in the region, the incremental impacts, or the economic benefits the KeyArena brings to the region and that would not exist except for the activities of the KeyArena are referred to as “new money” impacts. The incremental new money impacts of KeyArena -- \$165 million in business activity – are 40% of the KeyArena’s total business activity. This is a high comparative new money ratio as economy-wide about one-third of business activity is “new money”.

KAS FINDINGS AND PRINCIPLES: A FRAMEWORK FOR KAS RECOMMENDATIONS

Following are the findings and principles developed by the KeyArena Subcommittee as a result of their study and deliberations. These findings and principles are contained in the following document entitled *Preamble for KeyArena Future*, which KAS developed over the course of its work and which serves as the framework for the KAS Recommendations reported in the next section.

PREAMBLE FOR KEYARENA FUTURE

PART 1: KEYARENA IS INTEGRAL TO THE VISION OF SEATTLE CENTER:

Seattle Center Vision Statement

We are the nation's best gathering place. Supported by the people of Seattle, we are home to the finest cultural and educational organizations, sports teams, festivals, community programs and entertainment facilities. We exist to delight and inspire the human spirit in each person and bring us together as a rich and varied community.

PART 2: THE BROADER ROLE AND VALUE OF KEYARENA

The KeyArena Subcommittee of the Mayor's Task Force on Seattle Center Sustainability urges that, in addition to the bottom line impact on the City's budget, the following factors are considered in policy decisions by the City, the State and King County regarding the future of KeyArena:

- KeyArena is the region's premier indoor gathering place, anchoring Seattle Center in professional sports, broadening the diverse audiences that come together at Seattle Center for sporting events, concerts, family shows and other events, and building our sense of community.
- KeyArena has a positive economic impact on the State, King County, City of Seattle, and adjacent neighborhoods that is not reflected in proformas on building expenses and revenues, and this impact needs to be factored into any analysis of future operating models for the building.
- The physical shortcomings of KeyArena adversely impact the financial performance, patron and staff experience, and overall effectiveness of the building for all events, not just for professional basketball.
- KeyArena is closely tied to the overall operations and vision of Seattle Center and the impact on Seattle Center operations and on the Center's ability to carry out its vision needs to be considered in decisions on the future operating model for KeyArena.
- Convenient and safe transit, automobile, truck, bicycle and pedestrian access to KeyArena is vital to the future success of the facility. If patrons can't get there, neither the users nor the Center can be successful, despite new investments in the facility.

PART 3: VISION FOR KEYARENA'S FUTURE

KeyArena is a nationally competitive sports and entertainment venue bringing together large and diverse audiences to create a stronger sense of community and contribute to the economic health and quality of life in Seattle and the entire Pacific Northwest. It is an outstanding, accessible, fan-friendly venue for watching professional basketball, concerts, and a wide variety of sporting and family entertainment and is an historical and architectural icon whose long-term sustainability is essential to Seattle Center and its surrounding neighborhoods.

PART 4: PRINCIPLES AND PRIORITY CONSIDERATIONS FOR DETERMINING INVESTMENTS IN KEYARENA

Public funding is the cornerstone for the future success of Seattle Center and the Seattle Sonics/Storm. Removing the debt as a Seattle Center obligation is critical to both the Center and its tenants.

Retaining the Seattle Sonics/Storm as the anchor resident tenants of the KeyArena is integral to achieving the vision for Seattle Center and the KeyArena.

To be successful and sustainable, KeyArena must provide competitive revenue opportunities for its tenants and users -- Create capacity to generate added revenue and opportunities to maintain and attract new events.

KeyArena is an outstanding venue for watching all types of events from sports to concerts to family shows, and its diverse uses must be respected and enhanced in designing new improvements.

The economic return of the incremental investments in the facility -- both direct and indirect -- are important in identifying investments that will achieve the objective of competitive and financial success for Seattle Center and the KeyArena's anchor tenants.

KeyArena must be a modern and smart building to compete effectively for users as well as patrons -- Make "back of house", infrastructure, and technology investments to ensure the long-term competitiveness and operational efficiency of the KeyArena.

The quality of the audience experience is a major consideration in determining investments in the KeyArena -- Enhance the patron experience by creating additional amenities tailored to diverse audiences and events.

KeyArena, with an audience capacity up to 17,000, is a major traffic generator in the neighborhood and a core destination for mass transit service.

KeyArena is an important architectural and historic icon that enhances the urban design and environment of the Uptown Urban Center.

KEYARENA SUBCOMMITTEE RECOMMENDATIONS

The following are the recommendations of the KAS. Each recommendation is supported by all KAS members (7/0), unless otherwise noted. Individual member comments, where applicable, are included in the appendix to the Executive Summary. These recommendations have been informed by looking at the KAS charge from several perspectives -- KeyArena's role in Seattle Center; KeyArena from the perspective of tenants, users, and staff; KeyArena in the context of Washington State arena and stadium facilities; and KeyArena in the context of NBA professional basketball arenas.

Recommendation 1 The existing KeyArena debt (\$50 million in 2007) should be removed as an obligation of the Seattle Center operating budget. (7/0)

KAS Comment: From the standpoint of the future sustainability of Seattle Center and the potential financial success of the KeyArena and its tenants, the most significant action required is to remove the existing KeyArena capital debt service as an obligation of the Seattle Center operating budget. Assigning capital debt service for a municipal general obligation bond to the operating budget of a general government department, like Seattle Center, is an unusual public budgeting approach. Neither Seattle Center, nor KeyArena, nor KeyArena's anchor tenants can be financially successful as long as the debt burden remains an operating obligation of the Center.

While KAS has not as a body recommended how the existing KeyArena debt service might be alternately funded, two important perspectives have been voiced:

- (1) KeyArena is a regional facility just like the other local major league stadia and its capital renovation requirements should be funded from Countywide tax support relying heavily on visitor taxes and user fees; and,
- (2) It is not advisable that the City's overall operating General Fund absorb the remaining KeyArena debt if that simply means reducing other City operating services.

Recommendation 2 The City should engage in meaningful efforts to retain the Sonics/Storm as anchor tenants of KeyArena. (6/1)

KAS Comment: Seattle has been the home to the Seattle SuperSonics of the NBA, Seattle's oldest major league sports franchise, since 1967. The Sonics/Storm brought Seattle the first of the City's modern day national professional championships in 1978-79 and the Seattle Storm brought the WNBA Championship to Seattle in 2004. The KAS does not believe that the City should retain the Sonics/Storm as KeyArena tenants at any cost. The Committee does believe, however, that it is important and valuable to the city and the region to keep professional basketball and serious pro-active efforts should be actively engaged to this end.

Recommendation 3 If the KeyArena is to be a competitive, major league arena for NBA basketball and other events that currently take place in KeyArena, the KAS recommends that a capital investment in the range of \$200 million, as envisioned in the *KeyArena Concept Plan*, be made in the facility. (6/1) (Note: This \$200 million estimate does not include the amount required to pay off the existing KeyArena debt.)

KAS Comment: The KAS looked at alternative levels of capital improvements from \$20 million to \$200 million. The KAS concluded that it is only at the \$200 million level that the KeyArena gains the space to correct operational deficiencies, improve the competitiveness of the arena for events, enhance the fan experience with added amenities, and generate non-ticket sale revenues needed to be a profitable venue. A \$200 million investment in the KeyArena represents one-half the cost of building a new arena and requires one-half the time to implement.

Recommendation 4 Even if the Sonics/Storm do not remain as tenants of KeyArena, a significant capital investment of at least \$20 million is required for KeyArena to be a competitive, non-major league arena. (7/0) (Note: This \$20 million estimate does not include the amount required to pay off the existing KeyArena debt.)

KAS Comment: To be successful as a multipurpose arena without the Sonics/Storm, KeyArena will require investment to increase its capacity to compete for a broader array of events than it can currently serve and to address some of the current building deficiencies.

Recommendation 5 New investment in the KeyArena should be funded by private investment and public monies. The public funding for eliminating the current KeyArena debt and making new capital investments in KeyArena should rely largely on what are commonly referred to as "visitor taxes". The development of the specific funding plan should be determined by the elected officials of the City, County and State. (6/1)

KAS Comment: New and renovated multipurpose arenas around the country are funded through public:private partnerships. Data on the ten publicly-owned NBA-only arenas show substantial public funding – 63% on average. The predominant form of public tax support is "visitor taxes", including, for example, hotel/motel, car rental, and dining. The funding models for Safeco Field and Qwest Field should be considered as part of developing a funding plan. The use of City of Seattle General Fund is discouraged.

Recommendation 6 In considering public funding for KeyArena, KAS encourages elected officials to consider a broad set of public values and benefits, including State, regional, and local economic impacts, impact on the financial health and vision of Seattle Center, impact of a major league arena on the quality of life of the region, the impact on living wage jobs, and the ability of a broad range of the community to enjoy the benefits of both building construction and building events. (7/0)

KAS Comment: The willingness of elected officials and citizens to invest in sports and entertainment facilities is generally based on the proposition that the incremental economic activity generated for the larger community from a major league sports franchise returns more benefit than it costs taxpayers. There is also strong sentiment across a broad range of citizens and elected officials that major league sports franchises, as well as premier arts and cultural organizations, are part of the attractions of great cities and add to the quality and diversity of city life. And, there are countless examples of specific public benefits negotiated as part of the public:private funding and lease agreements. The KAS encourages elected officials to consider all of these “returns” on a new public investment in the KeyArena. In particular, we would recommend that the length of the lease with the Sonics/Storm at least match the life of the public bond funding.

Recommendation 7 A major reevaluation of the role of KeyArena at Seattle Center and its future uses will be required if the Sonics/Storm develop a new, modern arena somewhere in the Seattle Metropolitan Area. (7/0)

KAS Comment: The history of former NBA multipurpose arenas in the same market as new NBA arenas is bleak. Experience elsewhere indicates that the new modern arena becomes the venue of choice for concerts, family shows, and compatible minor league tenants. The older arena becomes a secondary venue, less competitive for profitable events, and struggles financially. Were the Sonics/Storm to build a new arena in this region, a major rethinking of the future of the KeyArena would likely entail substantial new investment in the arena to support a new vision and new uses for the Key. While a new arena would cost roughly twice as much to build and take twice as long as a renovation of KeyArena, it is a possibility.

Recommendation 8 Regardless of the level of new capital investment in KeyArena, annual investments should be made to a capital reserve fund for future investments to keep the building current and competitive. (7/0)

KAS Comment: Most major multipurpose arenas today have, as part of their funding agreement, a dedicated source or amount of annual funding in a capital reserve. Elsewhere, such reserves amount to 0.5 to 0.75% of construction costs. If it is the case, as our national consultants have observed, that the “business life” of a major league sports facility is equal to the length of the lease, it would be important to size a capital reserve accordingly. Keeping the arena up to date, attractive, and adaptable to change in the marketplace may extend the competitive and usable life of the facility.

Recommendation 9 In conjunction with significant new capital investment in KeyArena, develop a transportation management plan with increased reliance on transit use. (7/0)

KAS Comment: Convenient access and egress to/from Seattle Center and KeyArena for goods and services, as well as patrons, are vital to the health of the Center, KeyArena, and the surrounding neighborhoods. A new transportation management plan should include enhanced transit service, especially for major events.

Recommendation 10 Maintain the roof profile of KeyArena and enhance the pedestrian connections from the neighborhood to the interior of Seattle Center. (7/0)

KAS Comment: KeyArena’s distinctive roof profile maintains the continuity of design of the building from its beginnings at the 1962 Seattle World’s Fair. With a major redevelopment of the KeyArena, Seattle Center’s Master Plan principle of opening the edges of the campus to the community should be furthered.

SUMMARY

As noted above, the KAS recommends significant new capital investment in KeyArena, in the neighborhood of \$200 million, in addition to removing the existing KeyArena debt as an obligation of Seattle Center and KeyArena – a total investment of approximately \$250 million. If the KeyArena is to be a competitive, major league arena for NBA basketball and other events that currently take place in KeyArena, the KAS recommends that a capital investment in the range of \$200 million be made in the facility. This recommendation incorporates the program of the *KeyArena Concept Plan*, which includes:

- Expansion at the south end of KeyArena with excavation down to the event floor, allowing for construction of a loading dock, staging areas, staff support, new kitchen and security areas.
- In the concourses surrounding the seating bowl, moving the curtain wall to the roof line for increased circulation, new patron entries and amenities focused on increased revenue potential.
- These two combined moves increase square footage of KeyArena from 368,000 to 712,000; new NBA buildings average 700,000 to 750,000 sq. ft.
- Adding clubs and amenities for all seating areas at event level, lower, main, suite and upper concourses.
- Modernizing the suite level by eliminating 24 suites (32 remaining), converting north suite area to additional lower bowl seating and south area to loge boxes, counter seats, terrace tables and party suites. This diversifies the premium seating options and reduces reliance on suites.
- Improving KeyArena for concerts with expanded facilities on the event floor and rigging grid.
- Creating KeyTheatre for intimate concerts of 5,000 to 7,000 with new lobby and curtain system.
- Increasing total seating from 16,739 to 17,542 (note that 475 are standing room only for basketball); the NBA’s new guidelines for seating set the ideal at 17,500.
- Increasing total parking stalls within the building footprint from 62 to 358.
- Improving access and views around exterior of building and creating exciting new entries at suite level that allow for better building circulation and patron search procedures inside building.
- Creating a Sonics/Storm practice court and on-site office facility that reinforces and makes more visible the connection of the history and future of the Sonics/Storm with Seattle Center.
- Improving traffic flow with new ramp from John St. to event floor and access from the building and First Ave. N. garage to the south, away from pedestrian egress and Mercer St.
- Upgrading technology and concessions infrastructure in KeyArena.
- Completing design in one year and construction in two years with no relocation of the Sonics needed.

This recommended capital investment can come from a combination of “visitor taxes” levied in King County, the Sonics/Storm, and other building users. KAS makes this recommendation because it is our conviction that KeyArena as a first-tier major league arena is essential to both the financial health of Seattle Center and to achieving the Center’s vision to bring together diverse audiences to build our collective sense of community. The value of the Center’s mission and vision to this city and to the entire region has been endorsed by multiple Seattle Mayors and City Councils, by the voters of Seattle, and by millions of visitors to Seattle Center each year.

The City should make meaningful efforts to retain the Sonics/Storm as anchor tenants of KeyArena. We further recommend that public investment in KeyArena at a level sufficient to make it a competitive facility for NBA basketball should result in a long-term lease on the part of the Sonics/Storm, and a commitment that the broadest spectrum of the community be able to benefit from this public:private investment.

If efforts to retain the Sonics/Storm are not successful, KAS recommends making KeyArena a viable second-tier arena and recommends an initial investment of at least \$20 million. One caution to this recommendation is if the Sonics/Storm or another NBA franchise move to a new, state-of-the-art arena somewhere in this region. While a new arena would cost roughly twice as much to build and take twice as long as renovating KeyArena, it is a possibility, and such a development would require a reevaluation of the future of KeyArena, and whether other options for its future use should be considered.

EXECUTIVE SUMMARY APPENDIX: COMMENTS BY INDIVIDUAL KAS MEMBERS

KAS members were encouraged, where they felt strongly, to reflect points of difference and points of expansion or clarification regarding the ten KAS recommendations in this Executive Summary Appendix. The comments submitted by members are presented by recommendation and are in the words of the individual member, except to make the presentation of remarks parallel.

Recommendation 2 The City should engage in meaningful efforts to retain the Sonics/Storm as anchor tenants of KeyArena.

KAS Member Comments:

Rich Feldman objects to this recommendation (and to a similar statement included in the Principles) on the grounds that the Subcommittee did not have sufficient quantitative information in the process of developing its report to substantiate this recommendation. He feels that it distracts from the charge from the Mayor to provide answers to his two questions that ask for a quantitative assessment of options for Key Arena. He feels the Subcommittee recommendation, with which he agrees, that an investment in renovations to the KeyArena in the range of \$200 million is necessary if the community wants to retain NBA basketball, is analytically based and is stronger and more credible without the Subcommittee making a value statement about whether it is advisable to retain professional basketball.

Also he feels that the Subcommittee did not have time to develop additional information and conclusions related to this recommendation including the potential impact of trends in NBA economics on KeyArena and the impact on Seattle Center if KeyArena is a privately operated and managed facility. Based on the recently constructed NBA arenas studied by the Subcommittee, private management is a possible scenario.

John Coney strongly supports retention of the Sonics/Storm NBA franchise as critical to the future well being of Seattle Center and KeyArena. He expressed the view that were the Sonics to leave the region, the Seattle metropolitan area would, nonetheless, remain a highly attractive location for a future NBA franchise and new arena. Thus, he feels KeyArena would continue to be under threat of becoming a white elephant without a major league franchise.

Recommendation 3 If the KeyArena is to be a competitive, major league arena for NBA basketball and other events that currently take place in KeyArena, the KAS recommends that a capital investment in the range of \$200 million, as envisioned in the *KeyArena Concept Plan*, be made in the facility.

KAS Member Comments:

Martin T. O'Donnell agrees that a substantial (\$140M - \$200M+) investment would be required to raise the KeyArena's NBA tenant revenue generation potential to a level competitive with other NBA arenas. However, he has not seen evidence that the public benefits of retaining the Sonics/Storm are sufficient to justify a public investment of this magnitude.

Martin disagrees that the \$200M upgrade is required to make the KeyArena competitive for non-NBA events. The KeyArena competes with a very small set of medium to large sized regional venues. While the \$200M upgrade would make the KeyArena more attractive to concert and family show promoters, he has not seen evidence that more than a few incremental shows per year are likely to be booked as a result of the \$200M upgrade. Thus, he feels the benefit is quite small compared to the cost.

Martin believes the \$20M minimum upgrade (see KAS recommendation #4), coupled with an adequate capital reserve fund to enable continued capital replacement of the KeyArena over time, will make KeyArena competitive for non-NBA events, provided that no new regional venue of similar size is constructed.

Recommendation 5 New investment in the KeyArena should be funded by private investment and public monies. The public funding for eliminating the current KeyArena debt and making new capital investments in KeyArena should rely largely on what are commonly referred to as “visitor taxes”. The development of the specific funding plan should be determined by the elected officials of the City, County and State.

KAS Member Comments:

Martin T. O'Donnell, while not opposed to the use of so-called "visitor taxes" to fund retirement of existing KeyArena debt and a \$20M upgrade, doesn't wish to make any specific recommendation as to which taxes should be used.

He is concerned that current limitations on the permissible uses of certain "visitor taxes" will lead to a measurement of public investment in the KeyArena only against other likely public projects currently fundable by "visitor taxes," as opposed to against all likely or potential public projects. He felt that as the economic life of any of the KeyArena upgrade scenarios considered is measured in decades, it isn't appropriate to assume that today's limitations on the use of "visitor taxes" will necessarily persist for decades.

Recommendation 6 In considering public funding for KeyArena, KAS encourages elected officials to consider a broad set of public values and benefits, including State, regional, and local economic impacts, impact on the financial health and vision of Seattle Center, impact of a major league arena on the quality of life of the region, the impact on living wage jobs, and the ability of a broad range of the community to enjoy the benefits of both building construction and building events.

KAS Member Comments:

Rich Feldman feels an additional consideration in considering public funding for KeyArena is that the City and Sonics/Storm adopt a commitment similar to the community benefits package, including livable wage jobs, that was negotiated for the Staples Center in Los Angeles.

Further, he thinks that in light of an expected significant public investment, there needs to be guarantees for the public in the lease in the event of a team bankruptcy during the course of a 20-25 year lease.

Martin T. O'Donnell agrees with this recommendation, however the supporting narrative includes the following: "The willingness of elected officials and citizens to invest in sports and entertainment facilities is generally based on the proposition that the incremental economic activity generated for the larger community from a major league sports franchise returns more benefit than it costs taxpayers."

Martin feels this suggests that one analysis justifying a public subsidy in a project is that the project will yield at least a 1:1 ratio of incremental public benefits to public subsidy. He doesn't agree that the first project in line that exceeds such a 1:1 return necessarily merits a public subsidy. Rather, the public's opportunity cost should be considered: how does a project's incremental return (e.g., 2:1, 5:1, 10:1) to the public compare with that of other likely candidate projects for a public subsidy?