Comparison of SoDo and KeyArena Proposals

From arena design, to transportation and parking, to the need for public financing and funding, to city tax revenue generated — there are major differences between our arena plan in Seattle's Stadium District SoDo and the proposals for KeyArena.

- The RFP said no public financing. The Oak View Group (OVG) and Seattle Partners (SP) proposals both require public financing. We do not.
- OVG and SP both offer "music-first" proposals that could make attracting a NBA or NHL team less likely.
- Our SoDo proposal does not ask for exclusivity. If OVG or SP proposals are granted the exclusive right to build an arena in Seattle it could force prospective NBA or NHL owners to look outside the City to seek a better share of arena economics.
- The OVG and SP arena proposals will cost the city — public financing, taxes, parking, sponsorships, exclusivity, etc. In contrast, our SoDo arena proposal will benefit the city: 100% private financing, no financial risk, $27 million in public benefits including $8 million in public art, and significantly more new tax revenue that flows directly to the City.
- Is the Port of Seattle really considering spending $25-30 million of King County property tax money on a parking garage for OVG while investing only $5 million in the Lander Street Overpass that directly benefits the Port?
- The OVG and SP proposals both ask for significant public subsidies — the present value of which we estimate is well in excess of $200 million.

Financing

	OAK VIEW GROUP	SEATTLE PARTNERS	SODO ARENA
Total Cost	**$564M**	**$579M**	**$600M+**
Hard Owner Equity	**?**	**?**	**$200-300M (including $100M+ invested to date)**
Synthetic Equity/Quasi-Equity	**?**	**?**	**0**
Private Debt	**?**	**?**	**Balance**
Public Debt	**0**	**$250M**	**0**

Risks to City

	OAK VIEW GROUP	SEATTLE PARTNERS	SODO ARENA
Entitlement/Development/ Deposit Cost Risk	**Yes**	**Yes**	**No**
Cost Overrun Risk	**Yes**	**?**	**No**
Capital Improvement Cost Risk	**Yes**	**Yes**	**No**
Exclusivity Risk	**?**	**Yes**	**No**

Public Subsidies

	OVG	SP	SODO	City	County	State	Total	
Admissions Tax Waiver or Recapture	Yes	Yes	Yes	-	-	-	-	
Taxes on Arena Construction	Yes	Yes	No	11.5	2.0	29.0	42.5	one-time
B&O Tax	?	Yes	No	1.6	-	-	1.6	year one
Sales Tax On Concessions & Merchandise	?	Yes	No	0.4	0.1	3.9	4.4	year one
Property Tax	?	Yes	No	1.5	0.4	3.2	5.1	year one
Lease Excise Tax	Yes	Yes	No	-	-	-	-	year one
Parking Tax	Yes	Yes	No	0.6	-	-	0.6	year one
Utility Subsidy	?	Yes	No	-	-	-	-	
Parking Revenue Subsidy	Yes	?	No	-	-	-	-	
Seattle Center Sponsorship Sales	?	Yes	No	-	-	-	-	
Landmark Designation Benefits	Yes	No	No	-	-	-	v	
			Total One-time Taxes	11.5	2.0	29.0	42.5	
			Total Annual Taxes (year one)	4.1	0.5	7.1	11.6	

**Based on two team building (NHL & NBA)*

For Reference: KeyArena RFP Redevelopment Submissions to City of Seattle

Key Comparative Advantages of the SoDo Arena

Taxes

- **The only tax concession we are asking for is a waiver of admissions taxes — the same waiver granted to the other pro sports teams in Seattle.**
- **We estimate we will be paying sales tax on the construction of the arena (more than $40 million upfront), sales taxes on concession and merchandise sales ($4-5 million per annum), B&O taxes ($1-3 million per annum) and property taxes ($5-6 million per annum). In total the SoDo arena will pay more than $40 million in up-front taxes and $10-13 million in annual taxes. And these are year-one tax estimates that will rise with inflation.**
- **These taxes all will be incremental taxes and will result in both upfront and annual windfall tax gains for the City, County, and State. We estimate $11-12 million of the upfront taxes and $4-5 million of the annual taxes will go to the City.**

Financing

- Put simply, the SoDo arena will be 100% privately financed. No redirected tax revenues. We will privately fund all entitlement, construction, maintenance, operations, and capital improvements associated with our arena. This is vastly different from both the SP and OVG proposals.
- Unlike the KeyArena proposers, we already have invested the majority of the equity needed to finance the arena — more than $100 million in land and entitlement costs. We are and always have been prepared to put in more equity.
- Given our level of equity investment in the arena and adjacent real estate we are highly confident that we will have no problem securing debt financing for the arena and would be happy to provide a commitment letter from a lender.
- We believe our financing structure will allow us to be "team-first" as opposed to "music-first." Virtually all revenue streams (naming rights, sponsorships, suite sales, etc.) will flow directly to support the acquisition of the NBA and NHL teams, without needing to compensate a third-party operator whose primary interest is the music business.

Risk to City

- We believe the risks to the City from the SoDo arena are minimal and far less than those embedded in both the SP and OVG proposals.
- No deposit risk — we are funding everything privately.
- No entitlement risk — we have funded the entitlement process.
- No construction or cost-overrun risks — we are funding all construction costs, including cost overruns.
- No capital improvement or maintenance risks — we are funding all capital improvement and maintain equal costs.
- No operating risk — we are funding all operating costs and not asking for redirected taxes.
- If the Street Vacation is approved and the entitlement process complete, we also stand ready to assist the City in finding an optimal solution that protects the City financially as it relates to KeyArena — just as we were under the MOU.

Timeline

- We have completed all of our architectural drawings for permit and our plans have been reviewed and approved by the Department of Construction and Inspections, Design Review Board, Design Commission, and Department of Transportation.
- The SoDo entitlement process will be complete upon approval of the Street Vacation — making the SoDo arena "shovel-ready" with a construction timeline of 22 to 26 months.
- The Seattle Center arena plans are months away from even starting the entitlement process, so we

estimate they are a minimum of 24 months away from being shovel-ready. The timeline likely will much longer given the City's involvement as a partner and the fact that public subsidies are being requested. When compared to a similar construction schedule to ours, we think a new arena at Seattle Center is at least 4 years away, and a more accurate timeline is likely 5 to 7 years considering all the political, legal and entitlement hurdles involved in a project of this magnitude in Seattle.

Exclusivity

- **WE ARE NOT ASKING FOR EXCLUSIVITY.** This is a critical point of differentiation. Both SP and OVG appear intent on blocking our right to build a competing arena, while we have asked for no such consideration. We are fine with Seattle being a two-arena market and the resulting competition. We have not tried to preclude the City or another developer from building an arena at the Seattle Center or any other location. Competition is good and fair.

Traffic and Transportation

- We believe the parking and traffic considerations in SoDo are vastly superior to the Seattle Center. This is confirmed in the SoDo arena's FEIS, which looked at the traffic and transportation impacts of both SoDo and the Seattle Center (https://tinyurl.com/mqdlkdc).
- We simply ask any constituent of Seattle, the review panel, or the City Council to do due diligence. Drive to and from events at both sites and consider the character of the two neighborhoods, the daily traffic patterns, and the availability of parking and public transportation.
- In his presentation to the Council in 2012, Seattle Center Director Robert Nellams states that SoDo is a superior site for transportation (https://tinyurl.com/m49yad4). We believe the traffic situation surrounding KeyArena has worsened over last 5 years.

Arena Design

- Our detailed arena designs were vetted by the NBA during our bid to purchase the Kings, and we are committed to making sure the designs meet both NBA and NHL standards **at our cost.**
- We believe our arena design is vastly superior to that of both SP and OVG. It truly will be a world-class arena:
    - We had the benefit of starting from scratch and not having a site that was limited in size, by the landmark status of the roof, or the lack of adequate ingress and egress to the building.
    - Our Sonic rings will provide us with flexible capacity of over 2,000 and will allow us to offer a low-priced option to our fans of lesser financial means.
    - We believe the sightlines from the arena will be the best in the NBA or NHL given our innovative design incorporating the Sonic rings.
    - Our Gopher suites will be the first of their kind — allowing spectators the ability to see NBA games from their suite in the eighth row, and even closer for hockey! We believe our other premium suite and seating options are also a significant level above what is proposed by OVG and SP.
    - We believe our concourses and entry and exiting options will be more expansive and comfortable than the SP or OVG plans given the limitations caused by the roofline and current dimensions.

Objective

- Perhaps most importantly, our objective first and foremost is civic in nature. To date, our partnership has privately funded all of the costs based on our strong commitment to bring the NBA and NHL to Seattle. Our primary motivation is not profits, the music business, or enhancing a corporate network of arenas. It is returning pro sports to Seattle. We think our commitment and goals are fundamentally different from those of SP and OVG.

Seattle Partners (SP) Arena Proposal

Summary of Key Considerations

- The SP bid appears to ask for significant public subsidies.
  - **$250 million in public bonds to be repaid from a combination of taxes, new facility fees, and rent.**
  - **$47 million in upfront taxes (e.g. sales tax) and fee waivers relating to construction of new arena.**
  - Utility cost protection subsidy — apparent subsidy on utilities for new arena to be covered by the City.
  - Property tax subsidy — increased property tax from improvements appear to be passed on to all Seattle property taxpayers instead of paid by SP.
  - Potential parking subsidies resulting from taxes on (and potential revenues from) new and existing City arena parking lots.
  - Exclusive right to sell all Seattle Center sponsorships and premium seating.
  - Land subsidy — rent payments for the arena site appear to be substantially below market rates for similarly valued properties. What would the value of this land be if it were sold to a private developer?
  - **In total, we believe the present value of these subsidies is likely in substantial excess of $200 million.**
- **SP's proposal appears to conflict with several provisions of the RFP including: D.1 of the RFP — posing "no financial risk to the City"; E.3 — confirmation "the proposer will bear all costs of development and operation of the arena"; and E.6 — there be "minimal City financial participation."**
  - Significant public subsidy request outlined above.
  - Risk of default on public bonds.
  - Deposit and development risks — the deposit is not due until the signing of the Development Agreement and has an approval contingency requirement whereby it is refundable if all approvals for the arena are not received. This exposes the City to the risk the entitlement costs are not recouped if the project does not go forward.
  - Lack of clarity on actual guarantors behind SP partners. Are AEG and Hudson Pacific backing the financial guarantees with the full faith and credit of their companies, or will the newly created JV with more limited financial resources be the guarantor? The language in SP's proposal indicates the latter.
  - Potential lack of adequate guarantee to do capital repairs to keep the arena in "first-class condition" — potentially exposing the City to future capital repairs. Annual minimum contributions of $500,000-$1 million appear inadequate and the language of contributions beyond this amount is vague.
  - Potential lack of adequate guarantee to ensure new arena will meet NBA and NHL standards, exposing the City to the risk it will be required to bring it up to such standards.
  - Exclusivity request blocking the City's right to "directly or indirectly finance, subsidize, provide any incentives for, or otherwise assist any "alternative venue" for the next 30 years.

Risks of Proposal for Attracting NBA and NHL Teams

- We believe the public financing request and EIS and construction timeline will likely push the arena opening date out 5 to 7 years — and demolition of KeyArena means there is no adequate facility in the City or immediate vicinity for a team to play in the interim.
- Exclusivity request would prevent competing arenas from being built and would make negotiations with SP difficult for an NHL or NBA team because SP would have a monopoly in the City. This could push prospective NBA and/or NHL owners to look outside the City.
- Facility fees are essentially a private tax SP would be collecting from an NHL or NBA team (and fans).

- Lack of clarity around what happens to admissions taxes for NBA and NHL team owners. Are they waived, redirected to the building, or used to offset SP operating costs?
- “Music-first” focus of SP could create issues with the flexibility of the sports calendar, operating priorities, and the fair sharing of building sponsorship revenues, premium seating, and parking revenues — all of which are essential to the viability of NHL and NBA teams.

Detailed Considerations and Questions From Review of SP Proposal

1. The City bonds will be repaid using the City’s share of incremental taxes “measured relative to a historical baseline average.” Will that baseline be adjusted for the price inflation that will occur over the life of the bonds? Or does the baseline stay constant?
2. On page 378, SP requests that “construction costs incurred to redevelop the Arena as contemplated in this proposal are not subject to the imposition of sales, use or business and occupational taxes.” According to the non-redacted Sources & Uses page, the value of that tax waiver plus other waived fees is $47,808,162, an amount that suggested the requested tax waiver includes state sales and excise taxes. SP requests that the terms of the Development Agreement be modified to compensate it if the state tax waiver is not granted. **If the State waiver is not granted are they requesting the City reimburse them for the State’s portion of sales tax, which we estimate would total approximately $32 million** (6.5% Sales Tax * $475 million in hard costs + 1.5% Excise Tax * $70 million in soft costs)?
3. The Bond Refinancing Schedule on page 460 indicates that City tax revenues from NHL and NBA events will not be used to repay the City bonds. What will happen to those tax revenues? Is SP asking for them to be waived? Or are they asking for the future NHL and NBA partners to pay them and then have them reimbursed to SP in some manner? There was no clear answer in the non-redacted portion of the proposal.
4. Nowhere in the non-redacted proposal does SP indicate whether it will commit to perform capital repairs and replacements as necessary to maintain the arena as a first-class venue. We do not believe annual payments of $500,000-$1 million will be sufficient to maintain the arena in a first-class manner for 30 years. If 20 years in the future, the arena is in need of another major infusion of capital projects to stay competitive, will SP look to the City for further funding if the Capital Reserve Account balance is not adequate to fund the needed capital projects?
5. In Section E.4 of the RFP, the City asks the Proposers to make a deposit as a commitment toward the Project, to be refunded to the winning Proposer “only if the City exercises a termination right under the Development Agreement.” In its response, SP pledges $5 million but then appears to change the RFP language so that the deposit is refundable if they fail to get any of the requirement project entitlements from the City, County, State or any other authority. Will the City accept this as a valid deposit (as defined in the RFP)? If so, this would seem to put the City at risk for all necessary entitlement costs.
6. On page 379, SP proposes that it be given “the exclusive right to sell sponsorship rights as they relate to the Seattle Center campus.” In exchange, SP will pay the City an annual amount equal to the recent average annual revenues. Will that historical amount be adjusted for inflation over time? For which assets in the Seattle Center campus will SP sell sponsorships? If SP’s request is granted, will it be able to sell naming rights for the Chihuly Museum and the Space Needle and keep 100% of that revenue?
7. Similarly on page 380, SP proposes that “Seattle Partners will have the sole and exclusive right to sell any and all types of sponsorship, naming and premium seating rights relating to the Arena, the Redevelopment Site and the Seattle Center campus.” What is SP’s definition of premium seats at the Seattle Center campus? Does it include box seats for performances at McCaw Hall and premium seating for Seattle Reign games at Memorial Stadium, as well as “all types of sponsorships” at those venues?
8. On page 380, SP’s conditions state that the City will not “directly or indirectly finance, subsidize, provide any incentives for or otherwise assist any Alternative Venue.” SP defines “Alternative Venue” as, “any multi-purpose sports and/or entertainment arena with a capacity between 10,000 and 25,000 seats.” Is the City prepared to commit to show zero support for CenturyLink Event Center, a renovated Washington State Convention Center, or other future venues for the next 30+ years? This request appears very onerous and would severely limit Seattle’s growth options for the next 30 years. **This exclusivity would also effectively grant SP a monopoly in Seattle that potentially would allow it to seek unreasonable and unfair terms from future NBA or NHL ownership groups, as these groups would have no alternative sites in Seattle. Since SP appears to be precluded from directly owning an NBA or NHL team — given AEG’s ownership in the Lakers (NBA) and Kings (NHL) — this appears particularly problematic and could lead prospective NBA and NHL owners to look outside Seattle.**
9. On page 377, SP states that its proposed lease provides “Favorable structure to attract NBA and NHL franchises.” But on page 379, SP states it will collect a $5 facility fee “per ticket sold for all publicly-ticketed events at the Arena.” The Facility Fees collected on NBA and NHL games are not included in SP’s bond repayment schedule, and SP does not state who will be entitled to those funds. If anyone other than the teams themselves is permitted to collect those fees, isn’t that a highly unfavorable tax upon any incoming NBA or NHL team? If so, wouldn’t these Facility Fees make it harder to attract either or both? As SP would seem to be precluded from directly owning a NBA or NHL team (Given AEG’s ownership in the Lakers (NBA) and Kings (NHL)), this would appear particularly worrisome.
10. The Facility Fee appears also to place a difficult burden on the Storm and Seattle University. Won’t the Facility Fee amount to essentially a $5 per person tax on those events? Typical seat prices for those events range from $8-40, meaning those teams will face a tax of roughly 15-40% on their tickets.

11. Six times in its proposal, SP touts the $144 million the City will receive from the project in surplus revenue. On page 460, the Bond Financing Schedule shows that the City will receive less than 40% of that $144 million of surplus revenue during the first 30 years of the lease. Is that correct? If so, then we believe the present value of this $144 million would be minimal (less than a tenth of this amount).
12. The proposal touts various guarantees from “Seattle Partners” without giving a definition of what “Seattle Partners” is. Does the Seattle Partners guarantee mean that AEG and HPP will jointly and severally back that guarantee? Or will Seattle Partners be an operating LLC that shields those parent entities? Page 381 states they are “fully committed to the success of the Project and accordingly are prepared to provide reasonable and customary assurances to City regarding the financial resources of the joint venture.” That language sounds like a commitment, but it does not actually state that the parent companies will fully back up the guarantees made by Seattle Partners.
13. Under “Utility Cost Protection” on page 381, SP states the “City shall work with Seattle Partners in order to provide reasonable assurance that such costs shall not exceed their historical baseline average over the last three fiscal years, subject to standard negotiated escalation.” Is SP asking the City to pay all utilities above historical average levels? To estimate the extent of subsidy this would represent, utility costs at KeyArena have been between $500,000 and $600,000 per year during the last 3 years according to the Financial Summary distributed with the RFP. With more than $500 million in upgrades and additional square footage to heat and cool, plus dozens more events per year, the cost of utilities may quadruple or more in the renovated arena. Is SP proposing that the City pay for all utility costs beyond the $500,000-$600,000 established baseline? Also, worldwide energy prices have been historically low since the late-2014 plunge in oil prices. By structuring “negotiated escalations” with the City, is SP seeking to offload energy pricing risk for the next 55 years onto the City?
14. SP states on page 381 that “our conceptual designs are intended to comply with applicable NBA and NHL requirements, and our considerable experience … reinforces our confidence in such designs.” This language does not guarantee the renovated arena will comply with NBA and NHL standards. If the arena must be further renovated to comply with League standards, will SP fund those upgrades themselves or look to the City for further assistance?
15. The type of funding used for SP’s $271 million commitment to the renovation costs is not explained in the non-redacted portion of the Proposal. On page 458 SP labels it “Owner Equity.” But nowhere does SP guarantee that it is true, hard equity. To the extent all or a portion of this is debt or debt-like funding that is financed against pledged arena revenue streams, this could undermine the value of the various guarantees made by SP in the Proposal.
16. In the RFP, Section K.3, the City asks Proposers to estimate “taxes, fees, or charges paid or collected and submitted by the Selected Proposer to a taxing or other government authority.” In response, SP provides a table of Estimated Stabilized Year Tax Revenue on page 466. In this table, SP forecasts $11.53 million per year in admissions tax revenues. The admissions tax rate in Seattle is 5%, which implies SP expects more than $230 million in ticket sales each year. Achieving $230 million in ticket sales would require both an NBA and NHL team. Forbes estimates gate receipts for an average NBA and NHL team at roughly $55 million each. Does SP forecast generating $120 million per year in concert revenues? For comparison, Billboard ranked Staples Center as the eighth-highest-grossing arena in the world in 2014, with gross ticket receipts of just under $46 million.
17. SP also forecasts $3.95 million in facility fees collected — excluding NBA and NHL events. At $5 per ticket, that implies sales of 790,000 tickets. For comparison, in 2014, Staples Center sold 592,000 music and entertainment tickets. Is this correct?
18. SP’s tax revenue projection also includes $4.074 million in property taxes. What is the source of that revenue given that on page 378, SP states that the lease will ensure that “the Arena does not become subject to the imposition of any property, possessory interest or similar tax during construction or operation”? Who will be paying that $4 million per year? Is it all the other taxpayers in Seattle, whose property tax bills all would increase due to the increase in citywide assessed values due to the arena improvements?

Oak View Group (OVG) Arena Proposal

Summary of Key Considerations

- **Bid appears to ask for significant public subsidies:**
  - While Sections J (Redevelopment Financing Plan) and K (Operational Financial Terms) were completely redacted, leaving citizens and the Arena Advisory Panel in the dark about many of the key financial and operational considerations of the OVG proposal, based on the limited disclosures available **we believe the OVG proposal could entail even larger public subsidies than the SP proposal.**
  - In section 6 on page 32 of its proposal, OVG proposes the City "Reinvest back into the property" its portion of admissions taxes, sales tax on construction goods and services, leasehold excise tax, parking tax, and potential landmark incentives.
  - While such annual "revenue streams could first be applied as credits against base rent," OVG requests that excess funds go into an interest-bearing "operations and maintenance account" ("City Arena Fund"). The key word here is "operations." **If OVG is asking that all incremental taxes can be used to pay for its operating expenses, these taxes would fall directly to OVG's bottom line. As such, it appears unlikely that OVG would ever pay rent and taxes collected by the City from the arena.**
  - Land subsidy — rent payments for the arena site appear to be substantially below market rates for similarly valued properties. What would the value of this land be if it were sold to a private developer?
  - Parking development subsidy — OVG is asking to secure both approval for and public financing of a new 850-stall parking garage adjacent to the arena. **We believe the cost of this garage is likely to exceed $30 million and the annual revenues likely would be in excess of $3 million — implying an additional significant subsidy would be required.**
  - Parking management subsidy — OVG is asking for the right to assume "operational responsibility for all three existing Seattle Center parking garages." While details of the proposed "Revenue Sharing Agreement" with the City were not provided in the redacted document, we believe these lots currently generate revenues of in excess of $4 million per year for the City and go directly to the Seattle Center operating budget.
  - **In total we believe the present value of these subsidies is in excess of $200 million, and potentially even higher than those requested by SP.**
- **As with the SP proposal, the OVG proposal seems to not meet several important requirements of the RFP including: D.1 — posing "no financial risk to the City," E.3 — confirmation "the Proposer will bear all costs of development and operation of the arena" and E.6 — there be "Minimal City Financial Participation."**
  - Significant public subsidies outlined above.
  - Proposed deposit/financial risk during entitlement process — OVG proposes a deposit of just $100,000. Per page 31 this deposit is not due until the entitlement process is done and lease is signed. Therefore, the City appears to bear the risks and costs associated with the entitlement process.
  - Cost overrun risk — The City appears to be at risk for all cost overruns associated with "risks beyond the reasonable control" of OVG. Similarly OVG states it will not be responsible for cost overruns for enhancements or changes that are "for the benefit of the City."
  - Capital improvement costs — The City appears to bear significant cost risk for capital improvements if OVG's $1 million annual contribution to the "Reserve Fund" does not cover such costs. **We believe it is impossible for $1 million per year that is not adjusted for inflation to cover the cost of maintaining the new arena in a first-class manner for the next 35-85 years.**
  - Potential lack of adequate guarantee to ensure the new arena will meet NBA and NHL standards, exposing the City to risk needing to bring it up to such standards.

- Financing risk — How much hard equity is OVG putting into the project as opposed to debt or quasi-equity linked to future revenue streams from the new arena? While the redacted sections (J and K) make it difficult to assess the financing plan, it appears OVG may be relying heavily on its request to have City taxes funneled back into the City Arena Fund (to offset operating expenses) and parking subsidies.
- Transportation mitigation expenses – there does not appear to be a quantified and/or guaranteed financial commitment in the document to cover transportation/traffic mitigation imposing the risk of such costs. We believe these costs will easily run into the millions of dollars.

Risks of Proposal for Attracting NBA and NHL Teams

- We believe the public financing request and EIS and construction timeline will likely push the arena opening date out 5 to 7 years — and demolition of KeyArena means there is no adequate facility in the City or immediate vicinity for a team to play in the interim.
- Is OVG asking for exclusivity with its bid? Or that the SoDo arena also not be able to move forward?
- Request to redirect NBA and NHL admissions taxes toward an operating and maintenance account that may be solely for the benefit of OVG could put an unfair burden on NHL and NBA team owners, forcing them to consider other arena options.
- The "music-first" focus of OVG could create issues with the flexibility of the sports calendar, operating priorities, and the fair sharing of building sponsorship revenues, premium seating, and parking revenues — all of which are essential to the viability of NHL and NBA teams.

Detailed Considerations and Questions From Review of OVG Proposal

1. Will OVG allow for an inflation adjustment to its base rent of $1 million per year? Or will it still be $1 million in 35 years?
2. Are the additional five 10-year extensions purely within OVG's control? Or will the lease only be extended up to 85 years with the City's permission?
3. Little detail is provided regarding OVG's proposed "Development Financing Incentives" given that sections J and K were redacted from the version for public view. However, in section 6 on page 32 of its proposal, OVG proposes the City "reinvest back into the property" its portion of admissions taxes, sales tax on construction good and services, leasehold excise tax, parking tax, and potential landmark incentives.
   - While such annual "revenue streams could first be applied as credits against base rent," OVG requests that excess funds go into an interest-bearing "operations and maintenance account" ("City Arena Fund"). The key word here is "operations." Is OVG asking that funds from the City Arena Fund be used to pay the annual operating expenses for the arena? **If this is the case, these tax revenues would all qualify as operating subsidies toward OVG's bottom line. It appears unlikely that OVG would ever pay rent and incremental taxes collected by the City from the arena.**
   - It also is unclear if the baseline taxes the City currently is receiving from KeyArena will be subject to an annual CPI adjustment to ensure they keep pace with inflation.
   - If an NHL or NBA tenant comes to the building, what happens to the incremental taxes they generate? Can they simply go to the City Arena Fund for the benefit of covering OVG's operating expenses?
4. OVG commits to funding a capital maintenance and improvement reserve fund ("Reserve Fund" in section 3, page 31) with annual contributions of $1 million (assuming the balance of the fund does not exceed $5 million) to "maintain the and upgrade the arena in first-class condition." The key question for the City is, who pays the incremental costs if $1 million per year proves inadequate to maintain the building? There does not appear to be a direct commitment by OVG to fund all necessary capital improvements.
5. Similarly, if the lease endures more than 35-85 years, the arena will need one or more major renovations or rebuilds during that time. **A $1 million per year capital improvement commitment that is not adjusted for inflation is wholly inadequate to cover such major renovations.** Is OVG committing to funding those upgrades itself, or will it have the ability to come back to the City for additional funding?
6. Section 3 of OVG's proposed "Agreement Terms" states "If cost overruns arise from events of force majeure or other events beyond the reasonable control of OVG … then OVG will not be responsible for those costs overruns." The key here is not "force majeure" events, but rather "other events beyond the reasonable control of OVG." Is OVG asking the City to assume all of the cost risk for events beyond its control such as market-driven construction cost increases, labor unrest, changes in state and federal regulations, changes in NBA or NHL building standards, and weather delays?
7. OVG states it will not be responsible for cost overruns for enhancements or changes that are "for the benefit of the City." If OVG determines an enhancement or change is for the benefit of the City, is that the City's responsibility? **These two cost overrun disclosures appear to give OVG very wide latitude in requiring the City pay for many cost overruns.**

8. Section 4 of OVG's proposed terms states OVG agrees to make a deposit "upon execution of both the Lease Agreement and the Development Agreement." This is a departure from the terms the City specified in the RFP. It means that the initial deposit would not be due until the final closing of the project. Doesn't that defeat the purpose of an upfront deposit? More importantly, is a $100,000 deposit adequate for a $564 million project with what we estimate amounts to more than $150 million in public subsidies?
9. OVG's proposal contemplates a garage built with "funding from public agencies other than the City for this purpose." Will the garage revenues flow 100% to OVG? If an agency decides to build a garage for this project, will it do so for the benefit of the City or Seattle Partners? Or will it only be completed is OVG is selected? **We estimate the total cost of constructing an 850-stall garage would be in excess of $30 million and it would generate in excess of $3 million per year — implying the need for a potentially substantial upfront subsidy.**
10. Section 6 of the proposed "Development Terms" includes a request to "explore strategies to reduce overall permit fee expenses." Little detail is given. How unusual would this be for the City of Seattle? Have other private developers for major projects generally been granted a waiver of permit fees?
11. Proposed Section 8 terms state "OVG shall have the right to use Seattle Center's physical plant for heating and cooling generation, provided that OVG shall bear all cost of connection to the Project." The connection costs are a one-time, minimal cost. Will OVG pay for much larger and ongoing costs of the heated and chilled water itself?
12. Proposed Section 8 terms state "OVG shall have the right to assume operational responsibility for all three (3) existing Seattle Center parking garages, subject to … a revenue sharing arrangement with the City." No further detail is given. In the RFP addendum #3, the City states that parking revenue is not attributed to a single facility within Seattle Center, meaning the parking revenue is not credited toward KeyArena expenses. To the extent that the City's share is less than they City is collecting today, wouldn't that decreased revenue come directly out of Seattle Center's annual budget?
13. The ability to demolish the Mercer garage is a key element in the adopted Seattle Center Master Plan. If the garage is encumbered, the OVG proposal is inconsistent with the Master Plan.
14. In the "Vested Rights" section of proposed terms, OVG requests that the "City acknowledges and agrees that the Project shall not trigger a requirement for Landowner to upgrade the remainder of the existing improvements on the Property in order to conform to current Codes." It is unclear what this means, but it is unlikely that the City unilaterally can waive all building code changes; county, state and federal regulations such as ADA; and county health code. What is the full extent of code exception being requested?
15. On page 36, OVG agrees to adhere to the City's 1% for Art program. In the next paragraph, OVG states that "Any costs associated with the removal, relocation, or deaccessioning of City art installations located within or around the Redevelopment Site in connection with the Project shall be funded from the Arts Contribution." Will the City accept art removal as a valid use of Public Arts funds?
16. Section A of the RFP indicates the Selected Proposers will be responsible for the costs of tenants and improvements, which must be relocated for the Project. OVG commits only to "support existing City relocation programs and provide additional resources in furtherance of such transition plan." OVG gives no further details about the meaning. What impact will this have on existing tenants and what project costs will flow back to the City as a result of this exception?
17. On page 36, OVG indicates it will implement transportation-related FEIS mitigation measures "provided such measures are… commercially reasonable and feasible for a project of this size and type both from a cost and scheduling perspective." If OVG determines that some of the required transportation-related measures are not feasible for them financially, who will be responsible for funding these measures? **OVG does not appear to be making a binding financial commitment to transportation and traffic mitigation costs.**
18. In the Executive Summary, OVG cites projected first-year net revenues of $18.5 million. The line-item detail is redacted, so we have no way of determining how much of that amount is from refunded City taxes, rededicated City parking garage revenues, or other potential subsidies such as sponsorship, utilities, or traffic mitigation.
    - However, OVG has stated publicly that $18.5 million in net revenues would provide an adequate return to cover debt service and an equity return for the project sponsors. The $18.5 million divided by the $564 million estimated cost for the arena implies only a 3.3% net revenue yield (not net profits).
    - How is debt service covered, a return provided to equity holders, and a financial cushion established with such a low level of net revenues compared with the financing costs?
    - Are parking revenues left out of this $18.5 million figure?
    - Or is OVG relying on the net revenue amount increasing significantly when a NHL or NBA tenant comes — particularly given the incremental taxes that would be created and appear to go to the City Arena Fund? Would this revenue therefore be available to cover OVG's operating and maintenance expenses for the building?
19. Like SP, is OVG asking for exclusivity? Is OVG requiring that the City block our arena and Street Vacation to proceed?