



King County

Metropolitan King County Council Budget and Fiscal Management Committee

STAFF REPORT

Agenda Item No.:	<u>6</u>	Date:	<u>July 17, 2012</u>
Proposed No.:	<u>2012-0202</u>	Prepared By:	<u>Wendy Soo Hoo</u> <u>Mark Melroy</u> <u>John Resha</u>

SUBJECT

Proposed Ordinance 2012-0202 would authorize the King County Executive to execute agreements related to a sports and entertainment arena in the SoDo neighborhood in Seattle. The agreements include a memorandum of understanding (MOU) with the City of Seattle and a private entity proposing to develop the arena (ArenaCo), and an interlocal agreement (ILA) with the City.

Today's staff report summarizes and highlights the findings of the Arena Proposal Expert Review Panel convened by the Chair of the Budget and Fiscal Management Committee.

BACKGROUND

On May 29th, the Budget and Fiscal Management Committee Chair announced the formation of a seven member Arena Proposal Expert Review Panel. The panel is comprised of volunteers with expertise in economics, public finance, land use and urban development, labor, and transportation.

The panel members are:

- **Justin Marlowe**, a professor at the University of Washington's Evans School who specializes in public financial management
- **Bill Beyers**, a professor at the University of Washington who specializes in economics and geography
- **Dick Conway**, a local economist
- **Steve Orser**, an urban developer for Wood Partners
- **Tracey Thompson**, Secretary Treasurer of Teamsters Local 117
- **Charlie Howard**, Transportation Planning Director for the Puget Sound Regional Council
- **Doug MacDonald**, former Washington Secretary of Transportation

From late May through mid-July, panel members devoted significant time and effort to reviewing the arena proposal. Their efforts included:

- Meeting with Chris Hansen, the Director of the County's Office of Performance, Strategy and Budget, and representatives for the Port and the Manufacturing Industry Council
- Assessing the arena revenue model developed by City budget and finance staff
- Analyzing U.S. Bureau of Economic Analysis and other data to evaluate Seattle's market strength
- Considering the County's debt capacity and potential impacts to the County's bond ratings
- Meeting with staff from the Seattle Department of Transportation and Parametrix, the consulting firm that produced the Seattle Arena Multimodal Transportation Access and Parking study
- Touring the proposed arena site with staff from the City, County and Parametrix
- Analyzing Washington Department of Transportation and other traffic data

Summary of APERP Reports

This staff report summarizes key conclusions from each of the reports prepared by the panel.

Proposed Basketball Arena: Economic Impact (Dick Conway)

- Though the economic impact of the proposed basketball arena could not be assessed, "new money" associated with Key Arena in 2005 amounted to about 1,600 jobs and \$6.5 million of tax revenue in King County. In a county with 1.2 million jobs, this is not a large impact.
- In spite of the fact that professional sports are private enterprises, they are also public goods – i.e., something that produces a benefit that is widely available to the public at little or no cost. Even people who do not attend games may watch on TV or listen on the radio at no cost.
- Professional sports contribute to economic development by adding to the quality of life of a region. This can attract skilled labor by making the region a desirable place to live.
- Professional sports can spur urban growth and renewal. Urban renewal creates conflicts – this is evident in the concerns regarding the tension between the Port activities and encroachment of residential and commercial development in the SoDo neighborhood.

Proposed Basketball Arena: Market Analysis (Dick Conway)

- ArenaCo has not conducted a thorough market analysis for the proposed basketball and hockey teams.
- A market saturation analysis, taking into account population, number of sports teams, stadium capacities and home playing dates, found that of 22 cities, Seattle presently ranks eight in professional sports saturation.
- With the addition of a basketball team and a hockey team, Seattle would be the third most saturated.
- This does not mean that Seattle cannot handle two more teams, but the marketing of the basketball and hockey teams might be more difficult than currently presumed and increase competition for the existing teams.

Financial Considerations for the Proposed SoDo Arena (Justin Marlowe)

- The risk-sharing arrangement outlined in the MOU is one of the most favorable to the public of any recent public-private partnership. No public-private partnership is risk-free, but the proposed arrangement protects taxpayers in ways that many other partnerships have not.
- The public investment proposed in the MOU carries little or no risk to the County's overall financial condition. There is little chance the County's bond rating or General Fund would be harmed, even if ArenaCo's revenues fall well short of expectations.
- ArenaCo's business model is probably not sustainable without public investment. If the County backs the transaction, then ArenaCo can finance the proposed arena with 100 percent debt and can amortize the debt over the longest possible time period. This results in lower annual operating costs.

Observations Regarding the Economics of the Proposed Basketball Arena (Bill Beyers)

- The regional economic impact associated with a new arena would be tiny, but the project would likely have redistributive effects on consumer spending. The City of Seattle would benefit from the tax revenue redistributions.
- Additional economic analysis is needed to evaluate concerns raised by the Port of Seattle and other businesses in the stadium district.

- Construction from the new facility would generate about 1,790 jobs per year of construction statewide. Most of these would be in King County. Tax revenues to the state and local governments would be about \$24.5 million per year of construction.
- Major league sports franchises employ relatively few highly-paid people who often do not live locally and do not spend their salaries locally; a modest number of full-time office staff; and a cadre of day-of-game/performance staff who earn minimum wage.
- Adding NBA and NHL teams would cause erosion into existing team revenues if sports fan spending is fixed. Nevertheless, Seattle is the largest region in the U.S. without an NBA franchise.

King County Council Expert Review Panel Transportation Issues (Charlie Howard and Doug MacDonald)

- The Multimodal Transportation Access and Parking study should not take the place of a comprehensive traffic impact analysis as part of State Environmental Policy Act (SEPA) review process.
- The proposed arena will add Monday through Friday event impacts on at least 65 new event days in a base year and up to 79 new event days in a banner year. Additionally, the proposed arena will add between 6 and 22 new double event days.
- An NBA or NHL event at the proposed arena is expected to draw approximately 5,000 cars onto the regional highways system, which would be about a twenty-five percent increase over current levels. And with the traffic impacts being associated with a 7:30 PM start-time, it is reasonable to believe that the arena traffic would come during the 6-7 PM travel hour, just as the traditional commute travel delays of the 5-6 PM travel hour begin to wane. This combined effect would likely mean that travel delays associated with the commute peak of 5-6 PM would be extended into the 6-7 PM travel hour on arena event days.

Arena Proposal Land Use Issues (Steve Orser)

- The process of development in the industrial lands of south downtown has been fairly modest and incremental for a growing city especially compared to areas such as Belltown, South Lake Union and Ballard.

- Residential development is not necessarily well-suited to being located near sports stadiums because of traffic congestion on game days and the surging and receding crowds.
- Rather than serving as a single tipping point, this proposal would likely continue the trend of changes in the composition of the south downtown neighborhood.

Port of Seattle (Dick Conway)

- Marine cargo handling creates 12,400 direct jobs and 20,900 indirect jobs (33,300 jobs total) or 1.2 percent of total nonfarm payroll employment in Washington.
- If the Port expands, this will likely be generated through a growth in imports. Since pass-through cargo is simply unloaded from ships and then reloaded onto trucks and railroad cars, the additional manpower required by the seaport to manage the expansion would likely be just a fraction of the 12,400 jobs that marine cargo handling now directly engages.
- The Port of Seattle faces significant competition from other ports, resulting in low transportation rates. As a result, the Port of Seattle levies property taxes on King County taxpayers. In 2011, the Port of Seattle property tax levy amounted to \$70 million, of which \$40 million went to the seaport – the \$40 million constituted 29 percent of the cash flowing into the seaport in 2011.
- Achieving the Century Agenda objectives is likely to be challenged by this high level of competition, as evidenced by the recent loss of 20 percent of the Port's container traffic to the Port of Tacoma.

Follow-up from July 12th meeting

At the July 12th meeting, Councilmembers asked for additional information on the market analysis. Staff has not yet conducted additional analysis, but would suggest that further refinements of the analysis could consider the region's income and how the results vary depending on which teams are included (i.e., the WNBA, soccer, or major college sports teams). This additional analysis could be conducted as part of an in-depth economic study.

ATTACHMENTS

1. Proposed Ordinance 2012-0202
2. Dick Conway, Proposed Basketball Arena: Economic Impact

3. Dick Conway, Proposed Basketball Arena: Market Analysis
4. Justin Marlowe, Financial Considerations for the Proposed SODO Arena
5. Bill Beyers, Observations regarding the economics of the proposed basketball arena
6. Charlie Howard & Doug MacDonald: SoDo Arena Proposal King County Council
Expert Review Panel Transportation Issues
7. Steve Orser, Arena Proposal Land Use Issues
8. Dick Conway, Proposed Basketball Arena: Port of Seattle