PROPOSED BASKETBALL ARENA: ECONOMIC IMPACT

Comments by Dick Conway

Preface

Bill Beyers and I conducted four studies on the economic impact of the Seattle Mariners (1985, 1991, and 1994) and Seattle Seahawks (1996). Although the Mariner analyses were undertaken before the tiles started falling from the Kingdome ceiling, the findings were drawn into the debate over whether or not to build a new ballpark.

The Mariner and Seahawk studies focused on the employment, personal income, and tax revenue impacts of professional baseball and football. Taxes were an important issue in the debate over the new facilities, since their construction required public money.

We cannot assess the economic impact of the proposed basketball arena, but Bill Beyers' analysis of Key Arena in 2005 provides a good idea of the basketball arena's potential impact. The "new money" impact 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.

Except for taxes generated during construction, the tax impact of the basketball arena is likely to be fairly small. In this case, this is of little consequence, since ultimately no tax dollars, other than those coming from the arena operations, will go into the construction and maintenance of the basketball arena.

The small size of the basketball arena's potential economic impact, as defined above, does not mean that it will not provide substantial economic benefits to the City of Seattle and King County. There are three other types of economic benefits that in my opinion justify public involvement in the construction of the basketball arena: public good, urban amenity and economic development, and urban growth and renewal.

Public Good

In spite of the fact that professional sports are private enterprises, they are also public goods. Economists define a public good as something that produces a benefit that is widely available to the public at little or no cost. A city park with trees and flowers is an example of a public good. Because of the difficulty of collecting fees from people who visit parks, we typically pay for parks with public funds and make them available to everyone at no additional cost.

Baseball parks, football stadiums, and basketball arenas--like parks--are public goods. The games played in them are enjoyed not just by the fans sitting in the stands but also by thousands of people watching on television or listening on radio. For example, *The Seattle Times* reported that on September 28, 1995, near the end of the Mariner pennant run, an estimated 517,691 households were tuned to KIRO-TV to watch Ken Griffey, Jr., hit a grand slam home run to beat the Texas Rangers. Given that the game lasted three hours, this amounted to more than 1.5 million hours of "free entertainment" for baseball

fans on that one night alone. While it is difficult to place an exact value on professional baseball, football, and basketball as a public good, it clearly amounts to tens of millions of dollars per year.

Urban Amenity and Economic Development

Professional sports also contribute to economic development. Like good schools, the arts, low crime rates, museums, and parks, professional sports add to the quality of life in a region. In that way, they make the region a better place to live and a better place to locate businesses.

For example, when deciding where to locate their operations, businesses often take into account the availability of skilled labor. This is a critical consideration for rapidly growing firms in the high-technology sector. Since very few places offer a large but idle pool of skilled workers, most regions must be able to attract those workers from elsewhere if they are to remain economically viable. Regions known for a high quality of life have a clear edge in this aspect of the competition for economic growth.

We saw an example of this phenomenon during the dot-com boom. A large number of people, mostly young, moved into King County to work for software, internet, and telecommunications companies. Many of them chose to live in Seattle in order to be "close to the action," including professional sports.

Urban Growth and Renewal

Seattle was not always a thriving city. Between 1960 and 1980, city employment grew at one-half the rate of jobs in the rest of King County. At the same time, Seattle population declined by 62,700.

Starting in 1980, Seattle began a renaissance of sorts. Since then the city has been growing up and out. In the process, higher-valued enterprises have displaced lower-valued activities. Two recent examples are the residential towers in Belltown and the high-tech companies in South Lake Union.

Urban growth and renewal are often spurred by public projects. Sound Transit's light-rail system has led to new residential and commercial development in Rainier Valley. The replacement of the viaduct with a tunnel promises a total transformation of Seattle's waterfront.

The professional sports stadiums have helped spread residential and commercial development to Seattle's south downtown district: the renovation of Union Station, Paul Allen's office complex bordering CenturyLink Stadium and Safeco Field, and the "North Lot Development," which is now under construction in the football stadium's north parking lot. One objective of the North Lot project is to revitalize Pioneer Square, which is still struggling to find its identity.

Urban renewal creates conflicts. For years, marine-related businesses along the ship canal and the north shore of Lake Union fought the expansion of the University of

Washington. The seaport activities of the Port of Seattle have been waging a decades-long fight to contain the city's residential and commercial encroachment. The proposed basketball arena is just one more skirmish in this battle for Seattle and King County's economic future.

June 24, 2012

PROPOSED BASKETBALL ARENA: MARKET ANALYSIS

Comments by Dick Conway

Preface

In testimony to the King County Council, Carl Hirsch, consultant to Arenaco, said that Seattle was one of the best places to locate a professional sports team. In an apparent reference to a study by Policom Corporation (www.policom.com), he noted that the Seattle metropolitan area had the nation's third strongest urban economy in 2012, behind Des Moines, Iowa and ahead of Nashville, Tennessee. Hirsch's comments implied that Seattle compared favorably with New York and Los Angeles as a candidate for a new sports franchise.

Chris Hansen reiterated this claim in his open letter to the community. Addressing the question of whether or not Seattle could support two more sports teams, he said that "Seattle is clearly the top market in the US in which to put a new major sports franchise. It is the 13th largest TV market, one of the fastest growing, one of the most affluent, and one of the economically strongest."

It appears that Arenaco has not conducted a thorough market analysis for the proposed basketball and hockey teams. What is missing is consideration of the size of the Seattle MSA (metropolitan statistical area) population and the number of existing professional sports teams. If Seattle, which ranks fifteenth in metropolitan area population, were to add two more franchises, it would be one of only five cities in the nation with six or more teams.

Market Saturation Analysis

As a check on Arenaco's contentions, we have conducted what we call a "market saturation analysis" for the twenty-two largest metropolitan statistical areas in the nation (see Professional Sports Market Analysis.xls). For each area, the market analysis takes into account its population, number of sports teams, stadium capacities, and home playing dates. We calculate the potential attendance in a year under the assumption that the stadiums fill to capacity for every playing date. Our measure of saturation is simply the potential attendance divided by total population. If the measure equals 2.0, for example, this means that every person in the metropolitan area would have to attend two events, on average, to totally fill the stadiums for every playing date. A high value for the measure means that the city is highly saturated with sports teams.

This analysis is admittedly crude. We could have refined it by taking into consideration per capita income (an indicator of affluence) or the actual (not potential) attendance at events, but time would not allow it. In any event, it is doubtful that the results would have been substantially different.

Findings

Currently, Seattle has four professional sports teams: Seattle Storm, Seattle Seahawks, Seattle Sounders, and the Seattle Mariners. Combined, their potential attendance is 5,857,850, more than one-half of which is attributable to baseball. With a population of 3,500,026, the potential attendance per capita—the measure of saturation—is 1.674. Of the twenty-two cities, Seattle presently ranks eighth in professional sports saturation.

New York has eleven professional sport franchises but a population of 19,015,900. Its potential attendance per capita is 0.713, which ranks twenty-first. The Los Angeles measure of saturation is 1.001, which ranks seventeenth. Based on this test, Seattle does not compare favorably with New York or Los Angeles as a place for a new professional sports team.

If Seattle added a basketball team and a hockey team to its roster, the potential attendance would increase to 7,415,850 and its saturation indicator would rise to 2.119. In that event, Seattle would be the third most saturated market for professional sports. Only Denver (2.600) and Cleveland (2.392), both of which have significantly smaller populations than Seattle, would rank higher.

This does not necessarily mean that Seattle cannot handle two more teams. But it does suggest that the marketing of the basketball and hockey teams might be more difficult than currently presumed.

It is also apparent that when it comes to the sports fan dollar the new teams will provide stiff competition for the existing teams. Upon the arrival of the basketball and hockey teams, the potential attendance—and the saturation of the professional sports market—will increase by 27 percent. Will the new teams cause people to go to more sporting events, or will they steal fans away from the existing teams?

July 10, 2012

Research assistance provided by Joshua Barwell.

FINANCIAL CONSIDERATIONS FOR THE PROPOSED SODO ARENA

Justin Marlowe

July 10, 2012

Overview and Conclusions

In this paper I attempt to address some key financial considerations for the proposed Memorandum of Understanding (MOU) between ArenaCo, the City of Seattle ("the City"), and King County ("the County"). My comments are based on a review of the proposed MOU and the financial models of it developed by City and County staff, on some additional empirical analysis that I prepared during the course of the County Arena Proposal Expert Review Panel's ("the Panel") deliberations, and on my own extensive experience as a practitioner, teacher, and scholar of public financial management and the financial structure of public-private partnerships.

I have organized these comments around three key questions posed by County Council, County staff, and other Panel members:

1. Are the financial risks of the proposed Arena project appropriately shared between ArenaCo and King County?
2. How might the proposed transaction affect the County's financial condition?
3. Does ArenaCo need public financing?

The County's interests in this partnership are, without question, closely linked to the related interests of the City, the Port of Seattle, and many other public and private entities throughout the region. However, for this analysis I focus exclusively on the potential financial implications of the MOU for the County. If necessary, I am happy to provide additional comments on the financial implications of the MOU for other stakeholders.

I have three main conclusions:

1. 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 interests in ways that many other partnerships have not.
2. The public investment proposed in the MOU carries little or no risk County's overall financial condition. There is little chance the County's bond rating or General Fund face would be harmed, even if ArenaCo's revenues fall well short of expectations.
3. 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% debt (i.e. without equity investors) and can amortize that debt over the longest possible time period. As a result, ArenaCo's annual operating costs will be much lower and much more likely to align with its projected revenues.

1. Are the Financial Risks Appropriately Shared?

The proposed MOU is an innovative and sophisticated public-private partnership. It is the latest in a rich tradition of similar partnerships throughout the Puget Sound region that includes Benaroya Hall, the Seattle Art Museum, McCaw Hall at Seattle Center, Seattle Public Utilities' Cedar Water Treatment facility, and many others.

There is no "textbook" definition for public-private partnership, but most experts agree that PPPs are arrangements where partners from both sectors share the risks of delivering a public service over an extended time period. The term public-private partnership is often misused. A PPP is different from a privatization, where a private partner assumes most or all the risks for delivering a service in exchange for a fixed payment from the public partner. PPPs are also different from outsourcing, where a public partner transfers some or all of the day-to-day responsibility for delivering a service but retains most of the risks related to successfully delivering that service. In a true PPP each partner shares some of the risk. As a result, the key question in evaluating a PPP opportunity is: are those risks properly allocated to each partner? In my view, the answer to that question with respect to the proposed MOU is yes.

A full review of the research on PPPs is outside the scope of these comments. However, most of the research on successful PPPs - that is, PPPs that met the parties' objectives - shows they have three things in common[1]:

1. **Each partner manages the risks it is best able to manage.** The proposed MOU is consistent with this principle. ArenaCo's investors are proposing to manage the facility, including managing professional sports teams and producing concerts and other special events. These activities are a "core competency" of ArenaCo and the private operator it would likely hire if the facility were built. The County's role is to, in effect, temporarily lend its balance sheet by issuing bonds on ArenaCo's behalf. Issuing municipal bonds and exercising oversight over the use of public resources are two of the County's core competencies. In many other PPPs the public partner assumes some of the direct legal or financial risk related to operating the facility, but not in the proposed MOU.

   It is also important to note that the range of public financing tools available for PPPs has narrowed considerably, and this is additional reassurance that County's duties in the MOU are well within its core competencies. In the past, public partners could assume a greater share of the financial risks for PPPs by using sophisticated financial risk management tools. Variable rate bonds and "backloaded" debt service schedules allowed public partners to push large shares of the costs of PPPs into the future.[2] Default insurance allowed issuers to leverage up while protecting their bond rating. Interest rate swaps gave public partners the ability to borrow more money at lower, shorter-term interest rates. Many governments financed PPPs with some or all of these tools. However, most of these tools are no longer available. The variable rate debt market all but collapsed in the aftermath of the 2008 financial crisis, most municipal bond insurers are no longer in business, and many governments have unwound their interest rate swaps.[3] Since these tools are mostly unavailable, and because the County tends to employ conservative debt management practices, it is unlikely that the County will take only the financial risks it can best manage. For

[1] see, for instance, E.R. Yescombe (2007), *Public-Private Partnerships: Principles of Policy and Finance* (London: Butterworth-Heinemann); Justin Marlowe, Bill C. Rivenbark, and A. John Vogt (2009), *Capital Budgeting and Finance: A Guide for Local Governments* (Washington, DC: International City/County Management Association), see chapter 4; Barbara Weber (2010), *Infrastructure Investment as an Asset Class: Investment Strategy, Project Finance, and Public-Private Partnerships* (New York: Wiley Finance)

[2] Variable rate bonds have a floating interest rate rather than a fixed interest rate. This is similar to an adjustable rate mortgage where the mortgage payments are determined in part by market interest rates. When market conditions are favorable, variable rate bonds allow an issuer to maintain much lower interest rates than would be available through a fixed rate structure. Backloaded amortization schedules are structured so more of the debt is repaid later in the life of the borrowing. They are usually based on the assumption that projects like arenas will generate more revenue once they have been operating for several years. The disadvantage is they create a problem with "intergenerational equity," since future generations are responsible for a greater share of the debt burden.

[3] King County still uses these tools for selected projects with predictable cash flows.

the proposed MOU this means a traditional, fixed-rate, 30 year general obligation bond offering similar to much of the County's current debt portfolio.

2. **The partners understand and agree on how to manage "demand risk."** Demand risk is the potential that the partnership does not generate its expected revenues. In many PPPs the public partner assumes some of the demand risk. For instance, in many toll road PPPs a private partner operates and maintains the road in exchange for some or all of the tolls collected. In many cases the public partner agrees to make an "availability payment" to the private partner if actual tolls fall short of expectations.

   For the proposed MOU ArenaCo has taken the remarkable step of accepting almost all the demand risk at the outset by agreeing to a fixed base rental payment that is projected to cover most of the County's annual debt service. By further agreeing to additional rent payments if the base rent and incremental revenues from the arena fall short of the annual debt service, ArenaCo mitigates almost all the relevant demand risk. By proposing an additional security reserve ArenaCo has assumed an unprecedented level of the financial risks. Another key innovative protection is that the County's total investment is capped and is independent of the purchase price of the land is another important and uncommon protection. And finally, ArenaCo's willingness to assume responsibility for construction cost overruns is also extremely rare. I have studied public-private partnerships for nearly ten years, and I have not seen this level of security for taxpayers in any other arrangement of this size.

3. **Trust.** It is important to anticipate the relevant risks and mitigate those risks as appropriate, but most PPPs experience something unanticipated. Unanticipated problems such as design flaws or poor financial forecasts can render a PPP unsuccessful. At the same time, many PPPs experience unanticipated windfalls or successes and conflicts as a result. A good local example is Pacific Place in downtown Seattle. It outperformed its financial expectations and caused disagreement over how to allocate the windfall revenues. The key point here is that partners must be willing to revisit and, if necessary, modify the partnerships' main assumptions and terms. That requires trust, confidence, and goodwill to know a mutually beneficial deal is possible under all circumstances. For this any many other reasons participants in successful PPPs almost always say something to the effect of, "I felt good about the partnership because I felt like we could work with our partners."

   I won't attempt to assess the trustworthiness of ArenaCo's investors or partners. However, ArenaCo's transparency and accessibility to date suggests they want to develop that sort of strong working relationship.

2. How Might the Proposed MOU Affect the County's Financial Condition?

All public-private partnerships require some financial risk. An important question surrounding the proposed MOU is how the financial risks the County would take as part of the MOU might affect the County's overall financial condition? It's difficult to capture the "financial condition" of an entity as large and complex as King County with simple rule-of-thumb measures. However, much of the discussion about the MOU has focused on its potential impacts on the the County's bond rating and General Fund. Here I attempt to illustrate the MOU's potential impacts on both.

Academic researchers have developed a rich literature on what determines local government bond ratings.[4] The key finding from that literature is that bond ratings are determined mostly by a jurisdiction's

[4]See, for instance, George Palumbo and Mark P. Zaporowski (2012), "Determinants of Municipal Bond Ratings for General-Purpose Governments: An Empirical Analysis," *Public Budgeting & Finance* 32(2): 86-102; Justin Marlowe (2011), "Beyond Five Percent: Credit Ratings and Optimal Municipal Slack Resources." *Public Budgeting & Finance*

underlying economic fundamentals such as per capita income and the diversity of the region's economic base. King County fares well on these measures. Its strong economic base coupled with prudent financial management practices are the main reasons it enjoys a "AAA" rating (the highest possible) from Standard & Poor's and an "Aa1" rating (the next to highest) from Moody's.

That said, it is useful to consider how the borrowing proposed in the MOU could affect the County's bond rating. To do this I analyzed data from 90 U.S. counties that issued general obligation debt from June 15, 2010 through June 15, 2012. From that analysis we can predict a county's bond rating if we know some of its basic economic and financial characteristics such as per capita income, revenue volatility, and others.[5] Note that this analysis assumes any new borrowing is accompanied by additional revenues to repay that borrowing. Practically speaking, this is a fair representation of the County's current situation given the limited general fund resources available for new borrowing. It is also a key assumption underlying the proposed MOU. The results of that analysis are presented in Figure 1 below.

This figure shows the amount of money the County would need to borrow before its bond rating would likely change, correcting for the factors described above. The dashed horizontal line shows the County's current debt obligation and the red dashed line shows the County's debt obligation including the additional debt under the proposed MOU. The bar on the far left is the County's current scenario. For context, the Figure also includes three comparisons. First is a "worst case" scenario where Arena incremental revenues fall well short of expectations, triggering 1) a 25% decrease in general fund balance, 2) a 25% decrease in operating margin, and 3) a 10% decline in per capita income. The figure also includes the results of similar analyses for Multnomah County, OR and Suffolk County, NY. Multnomah County is rated AAA/Aa1 and is a common benchmark for King County. Suffolk County is rated Aa3/AA-. It has a population of similar size to King County, but it has also experienced substantial recent fiscal stress.

These results suggest the additional debt from the proposed Arena transaction would not jeopardize King County's AAA rating, all else equal. According to these estimates King County could nearly double its outstanding debt load without jeopardizing its rating, assuming its underlying economic fundamentals do not change. Even under the "worst case" scenario the County has more than $700/capita in additional debt capacity. By contrast, Multnomah County would jeopardize its AAA rating with this partnership, and Suffolk County would push its predicted rating deep into the "AA-" range if it engaged in this partnership.

A related question is what are the risks of the proposed MOU to the County's General Fund? The answer to this question turns largely on the degree of substitution of arena revenues for other entertainment spending and taxes.[6] In an extreme circumstance, these substitution effects would be quite strong, the arena would generate little or no new revenues for ArenaCo, County incremental tax revenues would fall short of expectations, and the County would need to divert General Fund resources to make debt service payments. At this stage the question is how would strong substitution effects shape the Arena's overall financial condition?

31(4): 1-16; John Capeci (1991), "Credit Risk, Credit Ratings, and Municipal Bond Yields: A Panel Study," *National Tax Journal* 19: 41-56; Paul G. Farnham (1988), "Evaluating Urban Financial Conditions: The Urban Conditions Index versus Municipal Bond Ratings." *Urban Affairs Quarterly* 24(2): 268-294

[5] Specifically, I ran an ordered probit regression with the higher of Moody's or S&P's rating as the dependent variable and seven independent variables: total outstanding debt, population, population change from 2000-2010, per capita income, total general fund balance, operating margin (i.e. annual revenues - annual expenses) for general government services, and revenue volatility. This model correctly predicts ratings 60% of the time and 90% of the time it correctly predicts within one notch. Probabilities of receiving certain ratings were determined through Monte Carlo simulations based on the estimated model parameters.

[6] For more on this I'll defer to my Panel colleagues Bill Beyers and Dick Conway

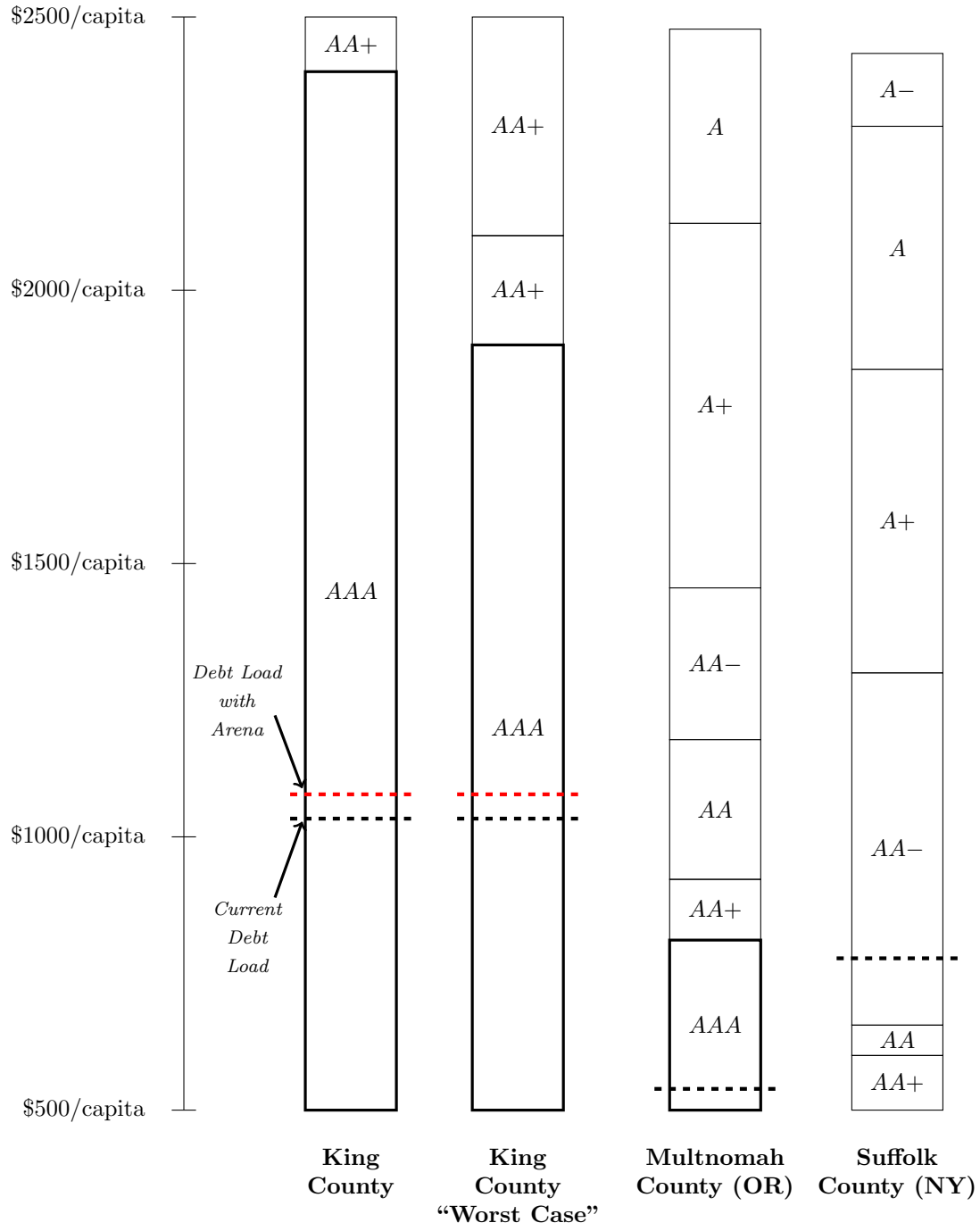


Figure 1: Debt Loads and County Bond Ratings. This figure shows King County's predicted bond rating at increasing levels of outstanding direct debt. The solid lines on the bars identify the debt level where the predicted bond rating changes. Current debt levels and the debt level with the proposed Arena borrowing are identified with dashed horizontal lines. For context, the Figure also includes three comparisons. First is a "worst case" scenario where Arena incremental revenues fall well short of expectations, triggering 1) a 25% decrease in general fund balance, 2) a 25% decrease in operating margin, and 3) a 10% decline in per capita income. The figure also includes the results of similar analyses for Multnomah County, OR and Suffolk County, NY.

	Base Scenario	"Worst Case Scenario"
Debt Service	$14,570,067	$14,570,067
New Taxes	$7,900,991	$5,371,337
Required ArenaCo Rent	$6,669,076	$9,198,730
ArenaCo Net Revenue	$6,463,723	$4,529,702

Table 1: Arena Annual Revenues and Debt Service Under Two Scenarios. This table shows the total revenues and debt service for a typical year according to the MOU and the financial model developed by City and County staff. Total debt service is the annual debt payments on all bonds issued by both the City and County. New Taxes are the incremental tax revenues - property tax, leasehold excise tax, etc. - generated by the Arena. ArenaCo's estimated net revenue is 7.5% of the total ticket revenues generated by the NBA and NHL teams.

Table 1 illustrates this basic dynamic. It shows the total revenues and debt service for a typical year according to the MOU and the financial model developed by City and County staff. Total debt service is the annual debt payments on all bonds issued by both the City and County. New taxes are the incremental City and County revenues - property tax, leasehold excise tax, etc. - generated by the Arena. ArenaCo's required rent is the difference between the debt service and the incremental taxes. ArenaCo's estimated net revenue is 7.5% of the total ticket revenues generated by the NBA and NHL teams given the assumptions about ticket prices, suite fees, etc. outlined in the financial model. The base scenario assumes no tax substitution effects, that 72% of the Arena revenues are new spending, and that all NBA and NHL games are at least 80% sold out. The "worst case" scenario assumes 50% tax substitution (i.e. a dollar of taxes generated at the Arena means $.50 is diverted from some tax otherwise collected away from the arena), 50% new spending, and NBA and NHL games only 50% sold out.

This table shows that it is unlikely that ArenaCo's will not make its required rent payments. In a typical year expected net revenues from just the NBA and NHL ticket sales nearly cover those rent payments. Recall also that the MOU requires a security reserve of approximately $14 million. That would more than cover the required rent for several years of the worst case scenario. Also note that these scenarios exclude any revenues from concerts or other non-sports events.

3. Does ArenaCo Need Public Financing?

Whether sports facilities are a good investment of public resources is fundamentally a policy question. It is useful, however, as part of that policy discussion to consider how public financing affects ArenaCo's business model and the structure of the PPP between ArenaCo, the City, and the County.

ArenaCo benefits from public financing in three main ways. First, public financing lowers its cost of capital (i.e. its interest rates plus transaction fees and other costs associated with borrowing) to finance the proposed arena. The second, and probably more important reason, is that it allows ArenaCo to finance the facility over 30 years. This allows ArenaCo to amortize the debt over a much longer time period and drive down its operating costs. And third, with public financing ArenaCo can finance the project with 100% debt. This obviates the need for equity investment that increases the project's overall financing costs.

To illustrate the differences in borrowing costs consider a scenario where ArenaCo could borrow $80 million over 30 years at rates similar to a BBB rated, publicly traded company. In this case the difference in borrowing costs between the proposed public-private financing and an exclusively private financing is the difference between the yields on BBB rated corporate debt and the tax-equivalent yields for the Countys debt. "Tax-equivalent" in this context means the yields investors would likely demand if the County sold taxable municipal bonds instead of traditional tax-exempt municipal bonds.

Figure 2 shows these differences from 2006 through the present.[7] It shows the estimated differences between public and corporate debt financing since 2006.[8] The solid gray line is the yield on 30 year US Treasury bonds. Treasuries are a common benchmark for both corporate and municipal bonds. The dashed line is the yield on a 30 year BBB rated corporate bond, and the solid black line is the estimated taxable yield on 30 year King County taxable general obligation bonds. Details about the data and calculations of these yields are in the caption below the figure.

This figure illustrates two key points. First, when 30 year Treasury yields were between 4.5% and 5.75%, what we might call "normal market conditions," BBB corporate yields were typically 40-60 basis points (i.e. .01% or one one-hundredth of a percent) higher than the estimated taxable yields for King County. During the market meltdown of 2008-2009 that difference was 250-300 basis points. Second, this figure shows that Treasury yields are at historic lows. For a variety of reasons these low Treasury rates have caused a tightening of the spread between corporate and municipal bond yields, and that tightening is reflected in the Countys recent yields relative to recent corporate yields. Nevertheless, all indications are that the Federal Reserve will slowly increase rates over the next few years to levels more consistent with historical trends.

If the proposed MOU is adopted and executed, the County will likely sell 30 year taxable general obligation debt sometime in 2015 or 2016. Assuming market conditions at that time are closer to the long-term average shown here, and assuming the County does not experience any major change in its credit rating, debt capacity, or other relevant factors, I would expect the County's borrowing costs to be 40-60 basis points less than those of a BBB rated publicly traded company at that time. Given the proposed amortization structure for that debt, this difference in yields would likely result in $400,000 to $500,000 in reduced borrowing costs each year over the life of the bonds.

Note also that the 30 year yield is an upper limit. The County would likely sell these bonds as serials, meaning a portion of the bonds would mature each year during the thirty year amortization period. Since the yields on the shorter term serials will be less than the yield on the 30 year serial, the Countys average cost of capital for the entire transaction or true interest cost will be much less than the 30 year yield. For instance, if the Countys taxable 30 year general obligation yield was 5.5%, and if the yields on the shorter term bonds were ten basis points less for each year prior (i.e. 5.4% for 29 years, 5.3% for 28 years, etc.), the borrowing costs for the proposed arena would be approximately 4.25%. Also keep in mind that current IRS allow the County to refinance this debt at lower interest rates sometime during the 30 years.

It is important to note, however, that this scenario is unlikely for ArenaCo for several reasons. First, it will be incorporated as private limited liability corporation and will likely not issue debt in the capital markets with publicly traded companies. Instead, it would likely have to seek financing in the private capital markets through a syndicated bank loan or some other "project finance" methods. Investors' expected rates of return on these types of instruments are much higher than traditional corporate bonds. How much higher is not clear because private companies are not subject to the same financial disclosure rules as public companies. However, there are some rough estimates of borrowing costs in the private capital markets. One of the most widely noted is the Private Capital Markets Project at Pepperdine University. It produces estimates from routine surveys of private capital investors and borrowers to determine expected returns on investment in different market segments. According to their most recent report, annual interest rates on short-term (i.e. 3 to 5 year) bank loan financing during the last quarter

[7] All yields are based on index values. Treasury rates are from the St. Louis Federal Reserve, corporate bond rates are from Bloomberg's "Fair Value" curves, and the King County yields are my own calculations using transactions data from the Municipal Securities Rulemaking Board. Note that the King County yields assume an implied 17% marginal tax rate. This rate is consistent with the historical spread between King County's general obligation debt and Bloomberg's Fair Value 30 year AA rated corporate bond yield index.

[8] Data on corporate bond yields are from Bloomberg's Fair Value curves. Data on King County's yields were computed using Svensson's (1994) method based on secondary market transactions data from the Municipal Securities Rulemaking Board. The tax-equivalent yield is based on an assumed 17.5% tax rate. That rate was derived from the historical spread between King County's yields and an equivalent AAA-rated corporate yield.

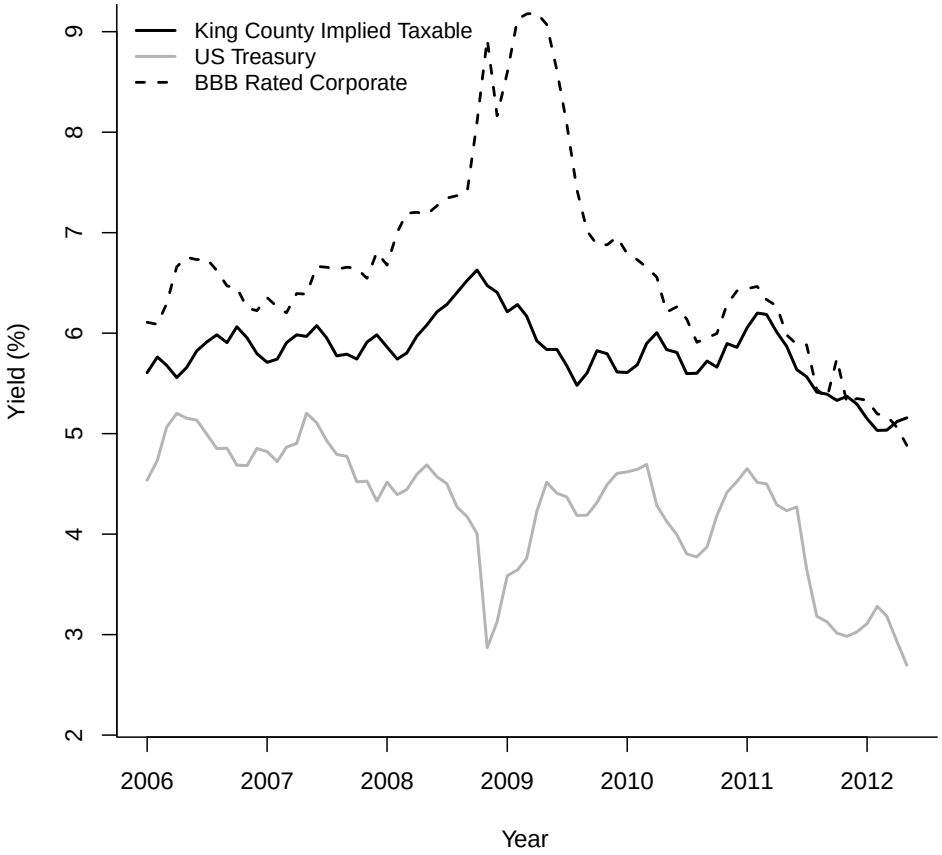


Figure 2: Comparison of 30 Year Bond Yields, 2006-2012. This figure shows benchmark bond yields that are relevant to the proposed Arena transaction. The solid gray line is the 30 year constant maturity US Treasury yield. The dashed line is the yield on a 30 year BBB rated corporate bond. The solid black line is the estimated taxable yield on 30 year general obligation bonds issued by King County.

of 2011 varied from 5.5% to 7%.

Second, the pool of investors for these types of sports facilities is much smaller than in the past. After talking with County finance staff and with my own contacts in the financial services industry it is clear there are a limited number of investment banks, private equity firms, and other institutions willing to invest in sports facilities of this size. If other professional sports teams are seeking financing at the time ArenaCo goes to the capital markets, demand for that capital coupled with a fixed supply could drive up interest rates. King Countys general obligation bonds, on the other hand, attract a much broader base of investors. In one of its recent bond sales, for example, the County sold many bonds for well above 120% of face value. If the County experienced similar demand for the proposed arena bonds, the interest rates on those bonds would be even lower than comparable corporate or other bonds.

The second key advantage for ArenaCo of public financing is that 30 year financing is generally not available in the private capital markets. Recent data from Bloomberg show that of all corporate bonds sold in the past three years, less than 1% had maturities over 20 years. If ArenaCo were to borrow over 20 years instead of 30 year, the annual debt service reported in Table 1 would increase from $14.5 million to roughly $18.5 million. Over a 15 year amortization that figure is closer to $22 million. ArenaCo is an unattractive investment with those annual operating costs. Moreover, under a privately-financed - or "project finance" - scenario ArenaCo's debt investors would likely demand equity investors to create some additional security between the Arena revenues and the annual debt service payments. Equity investment would likely increase ArenaCo's borrowing costs by at least 1-2%. Under a twenty year borrowing scenario, increasing those costs from 5.5% (what's assumed in the current financial model) to 7% would increase annual debt service costs from $14.5 million to just over $21 million. In short, public investment is necessary to provide ArenaCo investors with even a minimal return on investment.

Two other points are relevant here. First, public financing improves the County's position in the PPP with ArenaCo. Without public financing ArenaCo would likely not agree to a binding non-relocation agreement. That agreement provides the County with a more stable policy environment than without it. Moreover, in a wholly privately-financed scenario - such as the Golden State Warriors' new facility in San Francisco - the private investors would most likely expect tax abatements, infrastructure improvements, and other public investments. With public financing included in the partnership, the County is in a much stronger position to negotiate those arrangements if necessary.

Conclusion

Based on the evidence described here, I believe the proposed partnership allocates appropriate financial risks across the partners, it offers adequate security protections for taxpayers, and it is unlikely to present any unique or unmanageable risks to the County's overall financial condition. This is not to suggest the MOU is risk-free. If the County and City choose to go forward with this partnership there will be many questions about how to finance traffic mitigation, how to exercise proper oversight of ArenaCo's operations, and many other concerns outside the immediate scope of the MOU. I look forward to your questions and will be happy to assist however I can going forward.

July 8 2012 – DRAFT 3

Observations regarding the economics of the proposed basketball arena.

Bill Beyers
Department of Geography
Box 353550
Seattle, WA 98195-3550

This memo touches on some issues that should be addressed as a part of the analysis of the proposed basketball arena in the Seattle stadium district. The memo leans in part upon the Key Arena Economic Assessment that Beyers completed in February 2006 for the Seattle Center.

My friend Dick Conway has also made some observations about the economic impact of the proposed arena. Dick's comments are quite relevant, but are made from what I will call a macro-economic and long-run economic development perspective. I do not disagree with his statements. However, other perspectives are gained from a more micro-examination of economic issues surrounding this proposed facility. It is up to public officials to decide how to reconcile these macro and micro issues.

1. How important was economic activity at Key Arena to the regional economy in 2005?

The Key Arena economic assessment was benchmarked against King County. Table 1 contains some data from this study. This economic assessment found that gross expenditures of visitors to Key Arena and of businesses operating there created output of $353 million, Labor income of $102.1 million, tax revenues of $13.318 million, and 3,252 jobs in King County. New money—impacts associated with business activity in King County that would not be present here if the business activity at Key Arena were to cease—are smaller. This study estimated that these impacts would be $164.6 million in output (sales), $47.3 million in labor income, $6.474 million in tax revenues, and 1,572 employees. (The new money issue will be discussed in more detail below). Data from the U.S. Bureau of Economic Analysis provide measures of gross regional product and employment for the Seattle-Tacoma-Bellevue Metropolitan Statistical Area—a region larger than King County. Thus, the percentages in Table 1 should

Table 1 Key Arena Economic Impact Study Findings ($ in millions)

	Output	Employment	Labor Income	Tax Revenues
Gross Impacts	$353.3	3252	$102.1	$13.318
New Money Impacts	$164.6	1572	$47.3	$6.474
% of Seattle-Tacoma-Bellevue GDP Gross Impacts	0.19%	X	0.055%	X
% of Seattle Tacoma-Bellevue GDP New Money	0.088%	X	0.025%	X
% of Seattle-Tacoma-Bellevue Employment Gross		.155%		
% of Seattle-Tacoma-Bellevue Employment – New Money		0.075%		

be regarded as approximations of the importance of Key Arena impacts. The bottom line here is that these impacts were a very small share of total business activity in the region—maybe something on the order of 0.1% of regional economic activity. A related conclusion is that the current proposal would not significantly influence the overall level of income or employment in the Central Puget Sound region.

2. Consumption related issues.

The proposed arena would attract patrons largely from the local area. Two broad streams of spending would be impacted: (1) existing spending on sports and concerts/performances, and (2) changes in other consumer spending. Current information about the proposed stadium facility does not address these impacts. Let me describe these categories of impact.

Existing spending in the region on sports and concerts could be affected by the proposed facility. There could be impacts on sports activity such as the Mariners and Seahawks, as consumers may choose to shift spending from these types of sports to activities that could be present in the proposed stadium. Non-sports events, such as concerts, which currently take place at venues such as the Key Arena or the Tacoma Dome, could be shifted to the proposed new facility. An assessment of these shifts should be done as a part of the proposal for this facility. It may be prudent for the Council to require such an assessment in the MOU prior to commitment of any public financing.

Existing spending on non-sports and non-concert activity would also be very likely affected by the proposed facility. For example, local consumers now spending on dining out in local restaurants or buying sporting goods could shift their consumption expenditures to tickets to games such as Sonics games and related expenditures (such as those documented in the Key Arena study). Since most of the attendance at the proposed stadium would come from local residents, most of the shift in consumption outlays will be these local redistributions. Current spending generates tax revenues for local, county, and state governments, and the proposed stadium and its related patron/fan spending would reduce those revenues. On the other hand, there would be revenue streams to local, county, and state governments from the proposed new facility. What is the **net** effect on these governments of this proposal? Current documents do not address these redistributions. Certainly, the gross estimates of direct tax revenues included in documents provided for review overstate these net impacts. An assessment should be made of these net impacts. They may be near to zero, but are not likely to be due to the "new money" issue, discussed in the next section.

3. New Money Issues

How much new business activity will be generated in the region if this stadium proposal materializes? In previous analyses of the Mariner's, Seahawks, and Key Arena, as well as in many other impact analyses that this author has been involved with, an effort was made to document the net economic impacts associated with development proposals. Currently, there does not appear to be such an analysis related to the proposed facility. ***There is no economic impact study of the type undertaken for Key Arena, no study that goes beyond the direct revenues associated with the facility, and no study that tries to estimate the comprehensive regional economic impacts.*** It may be prudent for the Council to require such a study in the MOU prior to commitment of any public financing.

The sources of new money for projects of the type being discussed here stem from two factors: spending by fans/patrons, and income that accrues regionally to the teams/promoters of activities taking place in this facility. From the fan standpoint, this would be spending by those coming from outside the region, who would not otherwise be coming here to spend money. What is the region? In

previous analyses of the Mariner's and Seahawks, Conway and Beyers used King County and the State of Washington as the boundaries for their new money computations. New money impacts at the King County level are larger than at the State level, because many fans/patrons come from locations within Washington State. A case could be made for the Central Puget Sound region (King, Pierce, Snohomish, and Kitsap counties) as the relatively self-contained regional economy for such computations. Given the large levels of commuting into and out of Seattle, the City of Seattle is too small of a region to be meaningful for new money computations.

If an NBA Team, or hockey team were to be attracted to Seattle, some "new money" would also accrue to these ownerships, and possibly to those promoting other events in this facility. The net magnitude of these sources of income (after dealing with the redistribution issues discussed above) should be estimated. These funds could come from revenue received while teams were travelling, and from sources such as national media, either paid directly or distributed by the NBA and/or the NHL to member teams.

The likely net economic impacts of the proposed project are similar to a reasonable new money estimate, rather than the gross impacts. From a state, local and county government fiscal standpoint, net revenue estimates should be calculated. The argument that the proposed facility is self-financing should be linked to revenue streams (and costs—see below) based on new money calculations. We have limited data on the likely level of new money. Beyers Key Arena study is likely to be more relevant than the studies of the Seahawks and Mariners done many years ago by Conway and Beyers. The fiscal note presented to members of the King County Council committee needs to have a carefully developed new money estimate. New money tax impacts in the Key Arena study were about 50% of gross tax revenue impacts. If this percentage were applied to the tax revenue estimates provided to this committee (I know that these were only taxes generated on business activity directly occurring in the facility as opposed to the totality of direct, indirect, and induced tax revenues related to business operations and fan spending in the regional economy), they would reduce these tax revenues by about 50%.

If I am right, then someone clearly needs to do a tax revenue estimate that lays out likely current impacts on tax revenues associated with a consumption expenditure stream approximately equal to spending that would occur as a result of the proposed stadium/concert facility REGIONALLY, and then a similar calculation with the proposed facility. Clearly, this project is a winner for the City of Seattle tax revenue stream, as the admission tax would be a large gain to city revenues. However, the admissions tax is part of the cost of tickets that sports fans (and some concert goers) would pay, and this cost would cut into their expenditures on other activities, just as other components of the costs of attending events at the proposed stadium would. However, I argue that the relevant geography for evaluating the fiscal impacts of this proposal is NOT the City of Seattle, but rather the larger regional economy. In the Excel spreadsheet presented to our committee, City Tax revenues are shown as $258.5 million in nominal $ over the lease time period. If only 50% of these tax revenues are from new money, this level of income is more like $125 million. My reading of the spreadsheet is that these revenues are from a scenario with both an NBA and NHL team, in which public sector commitments to this facility are more on the order or

$200 million. Someone more familiar that I am with these spreadsheets needs to pencil out the difference between nominal income (over lease) as shown in spreadsheets presented to our committee, and new money income to these revenue streams.

4. Fiscal note versus economic impact analysis

The fiscal note presented to our King County Council committee presents estimates of revenue directly associated with the proposed project. Economic impact analyses present a more comprehensive perspective on projects such as the proposed facility and its tenants. It may not be possible to do an economic impact analysis that forecasts what the local and statewide economic impacts would be, as measured by sales, labor income, employment, and tax revenues. However, there should be an acknowledgement that the analysis presented to the committee is a partial analysis.

An important economic impact issue related to the proposed facility is its spillover impacts on other business activity in the region proximate to the proposed arena. Impacts on the Port of Seattle and the existing sports teams have been raised as issues. Framing a credible assessment of these spillover impacts may be complex, but due diligence requires that they be addressed. This assessment should include credible assessment of job impacts and fiscal impacts on local, county, and state government.

5. Economic impact arithmetic issues

In the Key Arena (and Mariner's and Seahawks analyses), one important issue that Beyers and Conway had to grapple with was where the labor income went geographically to the highly paid professional sports players. We presumed that most of it did not accrue locally, which substantially reduces the multiplier effect of this type of industrial recruitment. In most other industries in the regional economy, almost all labor income earned locally is spent locally in the time period in which it is earned. In the case of professional sports, this is not the case, leading to much reduced economic impacts (and reduced indirect and induced tax revenues to local governments) with respect to this income. No analyses have been presented to our committee addressing these income leakages.

From the standpoint of economic development principles, there has historically been a desire to create high paying jobs in industries locally, which have high local multiplier effects. Professional sports has an entirely different model, in which most labor income goes to a few people who typically do not live in the region in which they are employed (or are contract workers), do not spend their income in the time period in which they earn it, and do not spend this income locally. In contrast to these few highly paid sports performers, many other workers in these facilities are part-time workers paid at near minimum wages. This is a highly unusual model of compensation. It also is a contrast to the regional development strategy being updated by the Puget Sound Regional Council Prosperity Partnership framework, a framework participated in by the City of Seattle and King County.

Is this the model of job creation that the City of Seattle and King County want in the current time period? Do we want to attract a business with public funds that has income inequality for its employees (either legal or contract) that is FAR more unequal than found in almost all sectors of the local

economy? If the answer is no, then it does not mean that businesses of this type should not be created, but the question becomes if there is a compelling reason for a public involvement in their financing.

It would be useful for the County to consider other public-private partnerships on the scale proposed for this facility, to learn their nature, scope, and importance to our civic life, such as Seattle Center, Benaroya Hall, Safeco Field, Century-Link Stadium, and the emerging Husky Stadium.

6. Costs to local, county, and state governments

The fiscal note provided to the County Council committee speaks to tax revenues associated directly with attendance at the proposed arena. It does not address costs that local, county, and state governments would incur if this proposal materialized. Taxes are raised to help pay for services provided by governments. There should be an analysis of the burdens (costs) that impacted governments would bear if this project were undertaken. These costs should be linked to new money fiscal impacts, because these costs would be incremental (although there certainly could be a shift of costs related to the points raised in section 2 above.

7. Options for the use of public financing capabilities

The proposal to utilize city and county bonding capacities to construct the proposed facility raises the question of what these bonding capacities would be used for if this project were not funded by these governments. Does this proposed project have the effect of shifting bonding from other public projects in King County or the City of Seattle? In King County, this does not appear to be the case, but a clear answer to this question needs to be provided, especially by the City of Seattle.

8. Economic Impacts of construction of the proposed stadium

Little specific information is available about the nature of construction activity for the proposed stadium. We have been told that the construction cost would be approximately $400 million, and that this would likely be over a two year timeline. Table 2 below was developed by using the Washington State Input-Output model to estimate the statewide economic impacts of $100 million in construction activity. This model assumes 300 direct jobs per hundred million dollars of construction activity. If the project was $200 million per year for two years, estimated impacts per year would be double the values reported in Table 2. The direct construction jobs would be in King County. The input-output model is used to estimate indirect and induced impacts of economic activities. In this case I have used the state construction sector to model these linkages; specific data on a proposed arena would lead to different impact estimates, so these values should be considered indicative of construction impacts, and are subject to revision if more precise data were available on construction costs. Most of the economic impacts would likely be felt in King County, but there would be spillover impacts elsewhere in the state. I did not have a basis for calculating local B&O tax impacts. The estimates of sales tax impacts are based on the assumption that the construction activity would be subject to state and local taxes. They also include estimates of sales tax revenues associated with labor income expenditures, using data from the Washington State Office of the Forecast Council, to form a relationship between sales tax yield and labor income.

Table 2 Washington State Economic Impacts per $100 million in construction activity

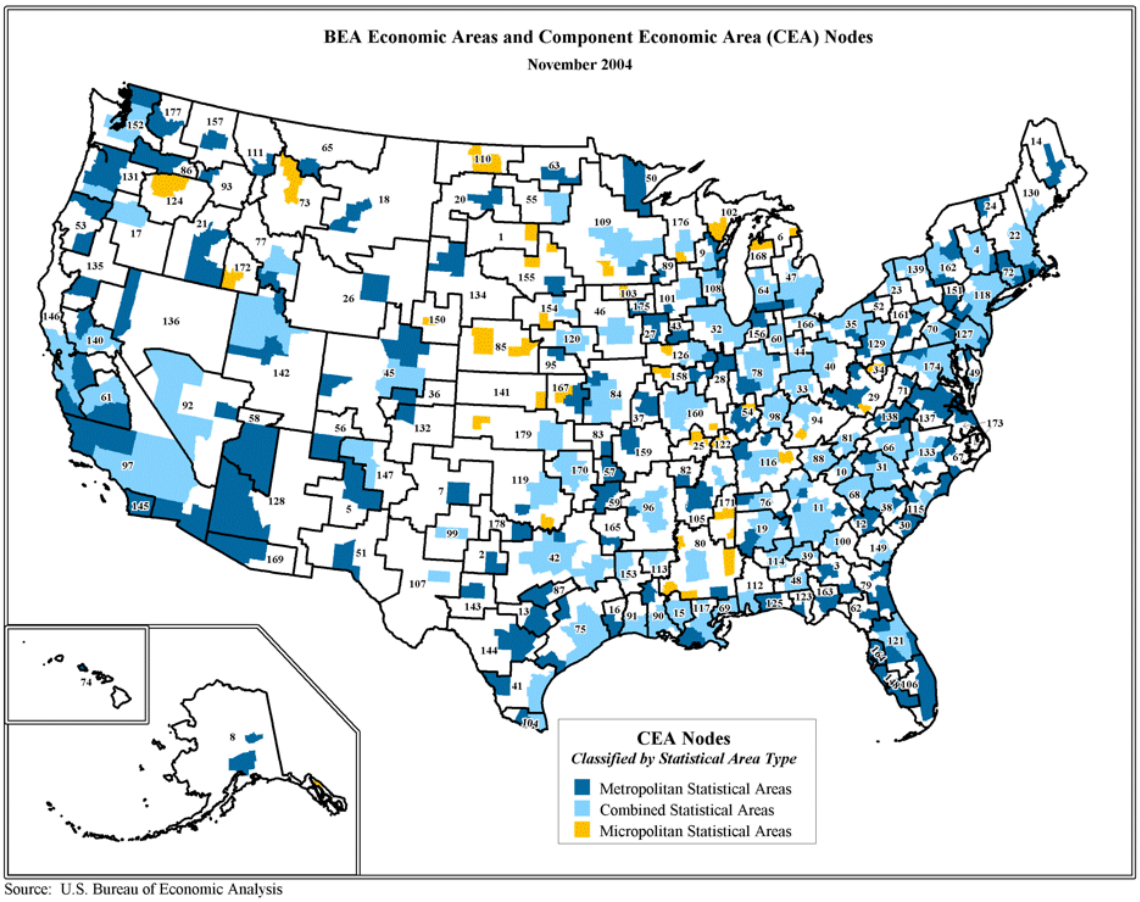
	Sales $ Millions	Jobs	Labor Income $ Millions
Natural Resources and Utilities	$4.8	14	$0.7
Construction and Manufacturing	119.2	349	26.8
Retail and Wholesale Trade	15.6	162	6.3
Producer and Transport Services	23.5	121	7.3
Consumer Services	20.2	243	8.1
Total	$183.3	889	$49.2
Tax Impacts ($ Million)			
B&O Tax - State	$1.053		
Sales Tax - State	8.109		
Local Sales Tax	3.119		
Total	$12.281		

9. Professional Sports Markets in U.S. metropolitan areas.

Questions have been posed about the ability of the local sports economy to support additional professional sports teams. I am not concluding that the region can or cannot support additional teams, and that if it did have additional teams that there might be adverse impacts on attendance at existing teams. However, it is possible to place the region in context nationally by looking at the existing distribution of major professional sports activity across the county. I have chosen to use data for the BEA Economic Areas, which are displayed on Figure 1. These areas are developed by the U.S. Bureau of Economic Analysis based on commuting and newspaper readership data. The Seattle region includes northwest Washington state, plus Kittitas County.

Table 3 shows the population of each of the largest BEA Economic Areas, and the number of major league baseball, football, and basketball teams, as well as the number of WNBA, Hockey, and Soccer teams. Then there is the sum of the number of teams, and the number of baseball, football, and basketball teams. It is clear that there is a relationship between the size of the BEA economic areas, and the number of teams. Two indices were calculated to represent the intensity of professional sports in each BEA Economic Area: A ratio between the number of types of teams present and the population of the region (in millions), and a ratio between the number of major league baseball, football, and basketball teams. The correlation between these indices and population is -.237, but four BEA economic areas are distinct outliers- Las Vegas and Raleigh Durham with no teams, and Sacramento and Orlando with only one team each. If these four regions are omitted from the calculation, the correlation rises to -.57, a much stronger relationship between size and the concentration of teams. Figure 2 is a scattergram of population and the index of team presence. It is clear that the very largest BEA Economic Areas have fewer teams than one might expect, even though it is clear in Table 3 that they have the largest absolute numbers of teams.

Figure 1 BEA Economic Areas

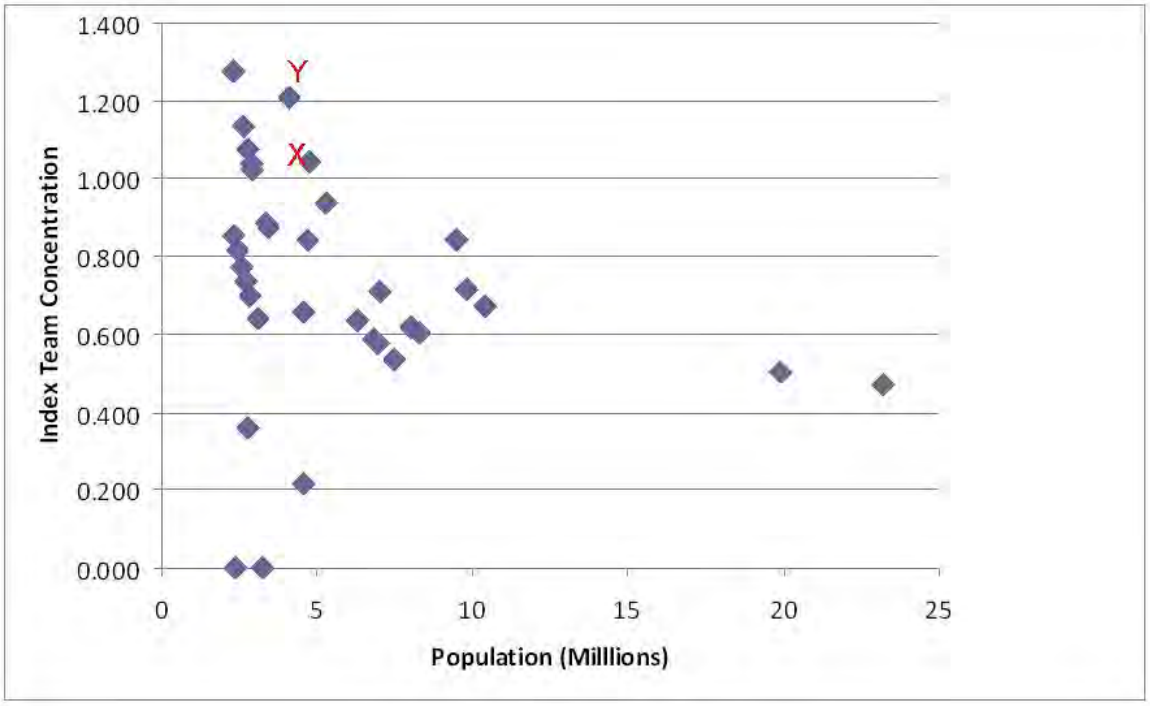


Source: U.S. Bureau of Economic Analysis

Table 3 Distribution of Professional Sports Teams by BEA Economic Areas

Area	2010	Major Baseball	Major Football	Major NBA	WNBA	Soccer	Hockey	# Teams	# 3 major	index 1	index 2
Region	Population									# types/ million population	majors/ million population
New York-Newark-Bridgeport, NY-NJ-	23180685	2	2	2	1	1	3	11	6	0.475	0.259
Los Angeles-Long Beach-Riverside, C	19877556	2	1	2	1	2	2	10	5	0.503	0.252
Chicago-Naperville-Michigan City, IL-I	10422652	2	1	1	1	1	1	7	4	0.672	0.384
San Jose-San Francisco-Oakland, CA	9812709	2	2	1		1	1	7	5	0.713	0.510
Washington-Baltimore-Northern Virgir	9460219	2	2	1	1	1	1	8	5	0.846	0.529
Boston-Worcester-Manchester, MA-N	8298612	1	1	1		1	1	5	3	0.603	0.362
Dallas-Fort Worth, TX	8055941	1	1	1		1	1	5	3	0.621	0.372
Atlanta-Sandy Springs-Gainesville, GA	7460789	1	1	1	1			4	3	0.536	0.402
Philadelphia-Camden-Vineland, PA-N	7061091	1	1	1		1	1	5	3	0.708	0.425
Houston-Baytown-Huntsville, TX	6938014	1	1	1		1		4	3	0.577	0.432
Detroit-Warren-Flint, MI	6820972	1	1	1			1	4	3	0.586	0.440
Miami-Fort Lauderdale-Miami Beach,	6306793	1	1	1			1	4	3	0.634	0.476
Minneapolis-St. Paul-St. Cloud, MN-W	5311909	1	1	1	1		1	5	3	0.941	0.565
Phoenix-Mesa-Scottsdale, AZ	4778800	1	1	1	1		1	5	3	1.046	0.628
Seattle-Tacoma-Olympia, WA	4738264	1	1		1	1		4	2	0.844	0.422
Cleveland-Akron-Elyria, OH	4580094	1	1	1				3	3	0.655	0.655
Orlando-The Villages, FL	4570601			1				1	1	0.219	0.219
Denver-Aurora-Boulder, CO	4135841	1	1	1		1	1	5	3	1.209	0.725
Indianapolis-Anderson-Columbus, IN	3434579		1	1	1			3	2	0.873	0.582
St. Louis-St. Charles-Farmington, MO	3381582	1	1				1	3	2	0.887	0.591
Raleigh-Durham-Cary, NC	3272541							0	0	0.000	0.000
Portland-Vancouver-Beaverton, OR-W	3111709			1		1		2	1	0.643	0.321
San Diego-Carlsbad-San Marcos, CA	3105115	1	1					2	2	0.644	0.644
Charlotte-Gastonia-Salisbury, NC-SC	2933967		1	1			1	3	2	1.023	0.682
Pittsburgh-New Castle, PA	2889786	1	1				1	3	2	1.038	0.692
Nashville-Davidson-Murfreesboro-Colu	2856986		1				1	2	1	0.700	0.350
Tampa-St. Petersburg-Clearwater, FL	2788151	1	1				1	3	2	1.076	0.717
Sacramento-Arden-Arcade-Truckee, C	2776347			1				1	1	0.360	0.360
Columbus-Marion-Chillicothe, OH	2713209					1	1	2	0	0.737	0.000
Kansas City-Overland Park-Kansas C	2647975	1	1			1		3	2	1.133	0.755
Salt Lake City-Ogden-Clearfield, UT	2591699			1		1		2	1	0.772	0.386
San Antonio, TX	2452610			1	1			2	1	0.815	0.408
Las Vegas-Paradise-Pahrump, NV	2396910							0	0	0.000	0.000
Milwaukee-Racine-Waukesha, WI	2344779	1	1	1				3	3	1.279	1.279
Cincinnati-Middletown-Wilmington, OH	2342574	1	1					2	2	0.854	0.854

Figure 2 Scattergram of population and professional team concentration index



If Seattle were to land a basketball team, our index would move up to the position labeled "X" in Figure 2, and if we also landed a hockey team our index would move up to the position labeled "Y" in Figure 2. Seattle is the largest BEA Economic Area without an NBA Basketball team. However, if we were to gain both an NBA team and a hockey team, our concentration of sports franchises would place us in a deviant position, given our population. One possible interpretation of the situation depicted by the letter Y in Figure 2 would be that there could be some competition between existing franchises and new franchises. In summary, there is a strong correlation between regional populations and the distribution of professional sports franchises.

Observations on economic issues related to the proposed basketball arena

Bill Beyers
Department of Geography
University of Washington
beyers@uw.edu

Some Basics

- Many questions posed for the review committee cannot be answered with available data
- We can provide insights on various aspects of the proposal
- If the proposal is approved by the City and County Council's, there is important additional research needed on this proposition

How important is the proposal to the regional economy?

- The Key Arena Economic Impact Study completed in 2006 found that “new money” generated about 0.1% of jobs in the regional economy.
- The proposed project may have a larger absolute impact, but it too will likely be tiny in the larger regional economic context.
- From a macro-economic perspective, the project will not create significant net new labor income, nor large numbers of jobs compared to ongoing development in the aggregate economy

But, shifting gears from macro to micro…..

- The facility would redirect a portion of regional consumer spending from existing business activity to the proposed arena and its tenants.
- And tax revenue accruing to local governments would be redistributed, with the City of Seattle a clear winner.
- The magnitude of these redistributions has not been estimated, but it is not appropriate from a regional perspective to claim that tax revenues from spending in the proposed facility would not reduce tax revenues in other jurisdictions (and the City of Seattle due to other spending redistributions)

The New Money Issue (1)

- While the proposal would not affect the aggregate income of local residents, it could impact the flow of funds from other regions into the community.
- This is “new money”
- The sources of “new money” are (1) spending by those living outside the local area, and (2) revenue to the teams/promoters from the leagues and national broadcast media
- In the case of the Key Arena study, new money was about 50% of total economic impacts
- In the case of the current proposal, we do not have a reliable estimate of new money

The New Money Issue (2)

- Why does this matter?
- If the local governments in the region were collecting tax revenues on consumer spending diverted to the proposed project, then this is lost revenue to them—this is substitution—not new money
- The question would be how much new tax revenue would accrue locally from the leagues and non-local spending, and this would be a closer estimate of tax revenues to REGIONAL governments than contained in the fiscal note provided to our committee.
- And it should be this net revenue measure that is used to evaluate whether public investment is recouped.

Spillover Issues

- Concerns have been raised by the Port of Seattle, and existing teams, and other businesses in the stadium district about economic impacts of the proposed facility.
- I am unable to evaluate these concerns, but they should be carefully evaluated, possibly through the SEPA process.

Economic Development Issues

- Major league sports has a business model quite different from the rest of the economy
- It relies on a few people who are highly paid who do not live locally and who do not spend their salaries locally as athletes, on a modest number of full time office staff, and a cadre of day-of-game/performance staff who earn minimum wages
- This model is clearly at odds with Regional Economic Development Strategies such as the Prosperity Partnership, which both the City and County embrace.
- It is a model of income-inequality at odds with goals of most regional economic development programs
- Is this an economic development strategy that the City and County want to embrace with scarce public funds?

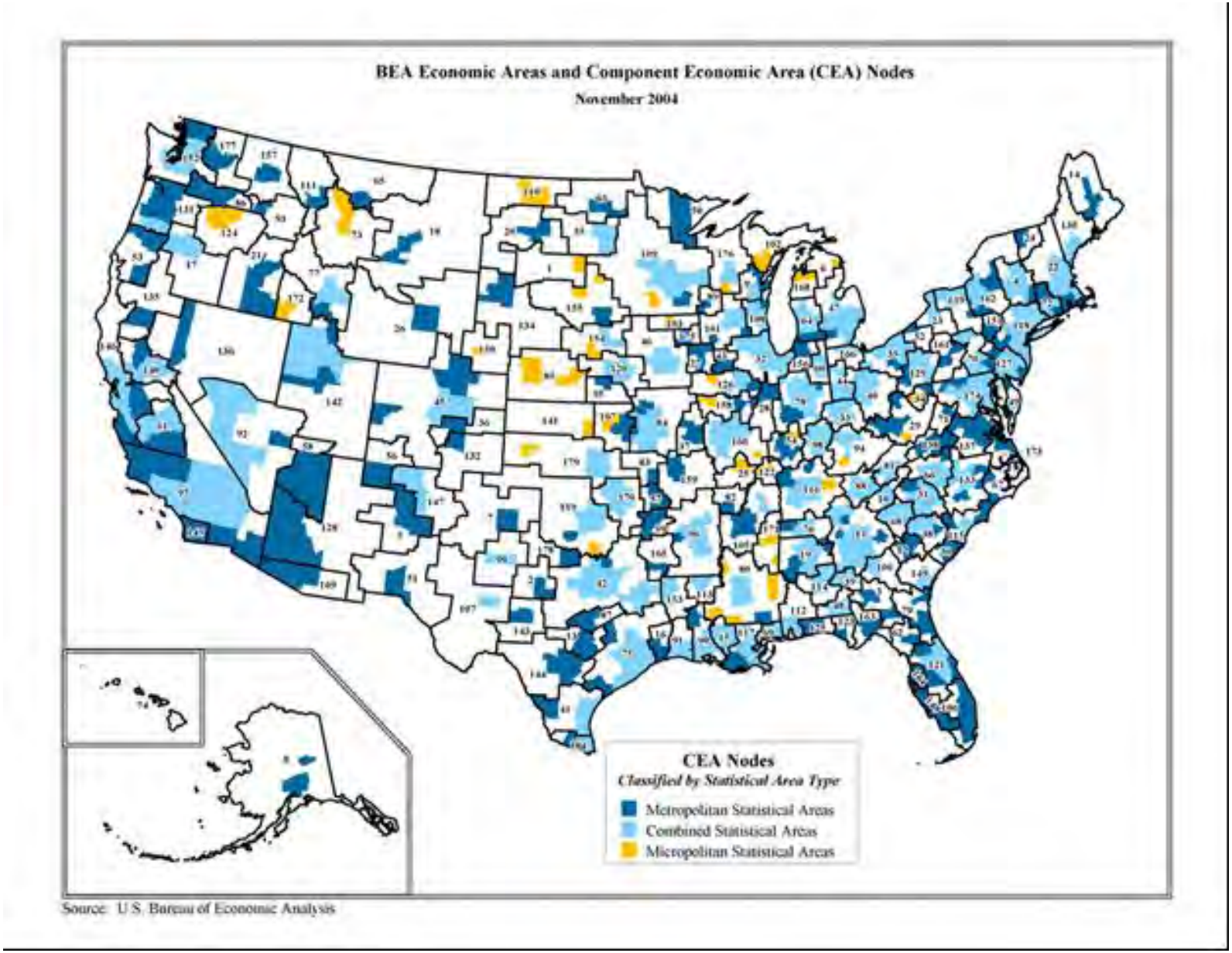
Economic Impacts of Constructing the Facility

- Assume the project took two years, and cost $400 million for construction
- This would generate about 1,790 jobs per year statewide, most of which would be in King County. About 600 of these would be direct construction jobs
- Tax revenues to the state and local governments would be about $24.5 million per year

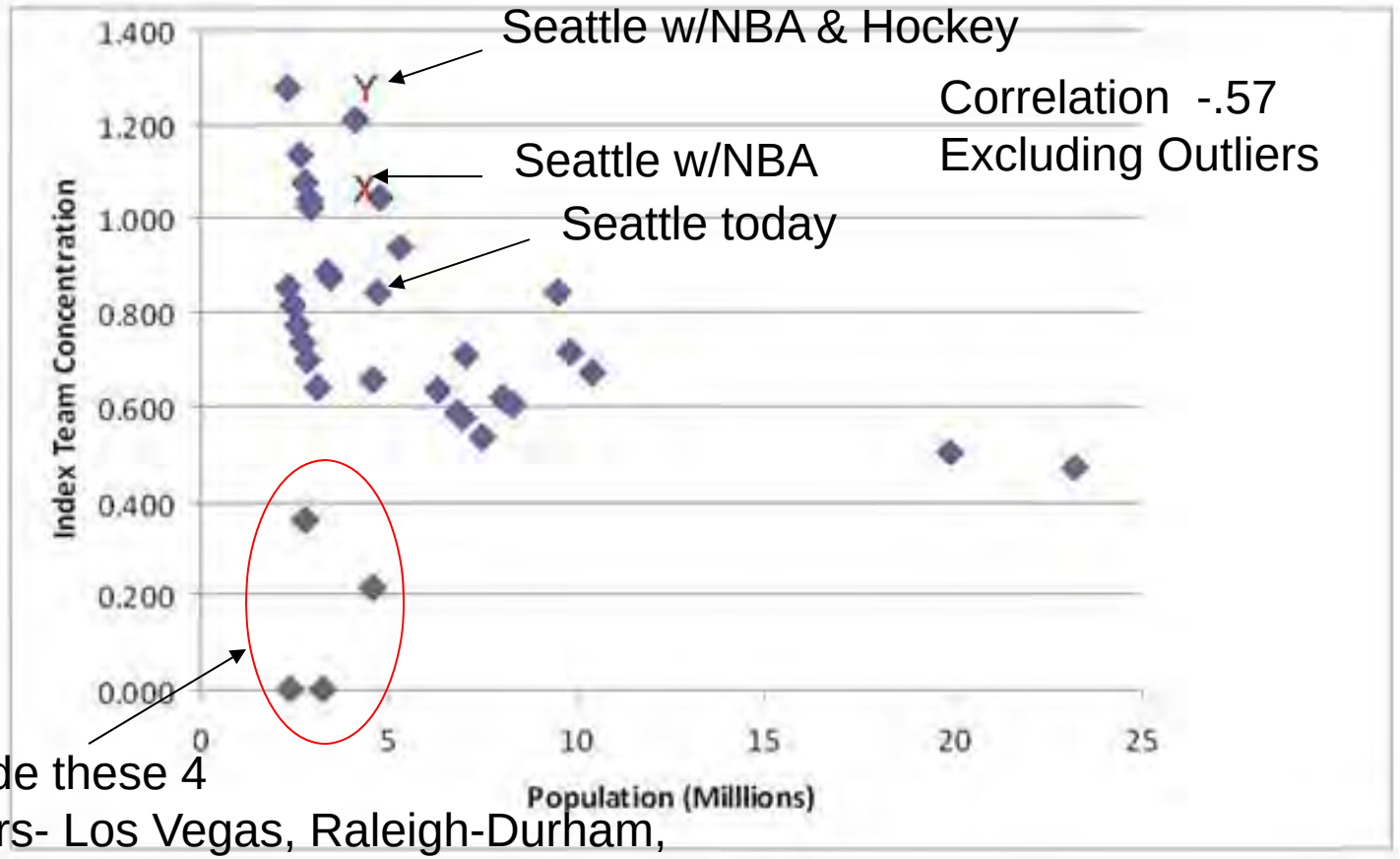
Can the local market support two additional teams?

- This is also a difficult question
- We are a high per capita income region
- But what does national evidence suggest about the existing supply of professional sports compared to other metro regions?
- Let us look at data for major metro regions to place this proposal in context.
- BEA Economic Areas are used to evaluate this issue

BEA Economic Areas



Distribution of Professional Sports Teams Numbers & BEA Economic Area Size



Exclude these 4
Outliers- Los Vegas, Raleigh-Durham, Sacramento, Orlando

Upshot of this market analysis

- The distribution of franchises for major categories of sports is highly correlated with regional population
- Seattle is the largest region in the U.S. without an NBA franchise.
- Adding both an NBA and NHL franchise would put us with numbers of teams well beyond the size our population would expect to have
- If fan spending were fixed, adding two more teams would likely have some adverse impact on fan spending for existing teams.

Summary

- The regional economic impact is tiny
- But the project would likely have redistributive effects on consumer spending, with net impacts on regional tax revenues well below that measured by data provided to our committee
- The City of Seattle would be the clear winner here in tax revenue redistributions
- There would be modest new income impacts
- The job creation model is not what regional economic development programs aspire.
- Building the facility would create about 600 construction jobs, and about 1800 jobs statewide for two years.
- The market for two new professional sports teams may cause erosion into existing team revenue, but Seattle is the largest metro region without an existing NBA franchise

SoDo Arena Proposal

King County Council Expert Review Panel

Transportation Issues

Charlie Howard[1]
Doug MacDonald[2]

The memorandum comments on transportation issues presented by the SoDo arena proposal.

The Transportation Access and Parking Study

In large part we respond here to the Transportation Access and Parking Study (May 23, 2012) prepared by Parametrix for the arena proponents with guidance and participation by SDOT (Arena Transportation Study or Study).

- It is the stated purpose of the Study to "evaluate transportation and access in the vicinity of the proposed Seattle Arena" – an "initial effort to examine transportation impacts created by the Arena proposal."
- The Study self-declares that it is not a substitute for the analysis required by the State Environmental Policy Act (SEPA):[3]

  > "An expanded traffic and transportation impact analysis would be required as part of a more detailed project review to comply with [SEPA]"

- Although Parametrix and Seattle Department of Transportation (SDOT) met with representatives of the two existing sports venues in Seattle, South Downtown Neighborhood (SoDo), the Port of Seattle, the Longshoremen, the Seattle Freight Advisory Board and the Duwamish Transportation Management Association, the Study's preparation lacked the transparency and responsiveness of a public process ordinarily accompanying, for example, the preparation of a SEPA EIS.

---

[1] Transportation Planning Director, Puget Sound Regional Council

[2] Former Washington State Secretary of Transportation (2001-2007); transportation consultant.

[3] SDOT letter from Peter Hahn to King County Council dated June 7, 2012 to confirming that the City appreciates that expanded parking and traffic analysis will be required as part of a more detailed SEPA review.

The Study in Relation to SEPA

The State Environmental Policy Act (like the National Environmental Policy Act) has two core values:

- Full disclosure of environmental effects of proposed government courses of action should be made for the benefit of citizens before governments commit to actions that might have important environmental consequences.

- Policy makers in the government should have the advance benefit of that disclosure as a predicate for making fully informed policy choices when environmental consequences might be at stake.

While timing and scope of a SEPA review of the proposed arena are the responsibility of the City of Seattle (and perhaps also of King County), we observe the desirability for the public and decision-makers here to have the benefit of the kind of detailed study that usually would be part of a SEPA review.

We have been asked to help the County Council understand the transportation impacts of the proposed arena. Within the time constraints and limited resources available, we have attempted to review the major transportation issues that should be addressed, and have tried to shed some light on the transportation effects of the proposed arena. Neither the Study nor our comments reaches the level of analysis an EIS would achieve. The Council therefore must make a policy judgment whether to act on the proposed Memorandum of Understanding on the basis of the limited analysis so far available.

In addition to information that *is* developed in the Study, there are, in our view, four chief gaps in the information so far developed:

1. What will be the effect of the arena proposal on regional transportation corridors, especially I-5 and I-90 (and taking into account circumstances as they reasonably can be expected to exist on the regional system from and after 2016)?

2. What will be the effect of arena-related traffic on freight mobility in the SoDo and Duwamish area – and the significant economic and job interest tied to them – both apart from the Port of Seattle and including the Port?

3. What additional traffic generating features are currently being planned as part of the arena development? Full disclosure of additional features of the current arena proposal, if any, will help provide the public with complete information about potential transportation impacts.

4. What are the likely effects of the proposal on air quality in the SoDo area?

We hope the following will sharpen focus on some of the information already developed and help to address the gaps still remaining.

Event Attendance and Traffic Generation

The foundation of the Arena Transportation Study is a postulate of added event frequency of occurrence and traffic volumes built on a hypothetical extrapolation of sports teams' schedules. That extrapolation frames the key question: What is the potential additional traffic generation into SoDo should NBA and NHL and perhaps WNBA franchises playing in a new arena join the Mariners, Sounders and Seahawks team events in SoDo? [4]

For traffic analysis, circumstances and concerns are quite different for weekday (largely weeknight) events than for weekend events. Based the spreadsheet underlying the Study and with the assistance of Council staff, we restated the analysis to move Friday events from the Study's weekend framework into the weekday framework. In order to simplify thinking about "worst case" traffic issues we juxtaposed today's SoDo experience (existing venues, little playoff activity) with what might happen if fond hopes were realized (a new venue; a full gamut of playoff activities – equivalent to the Study's "Banner Year" case).

This yielded the following:

How Many Cars?

The study suggests that car traffic seeking to reach, enter, park and leave SoDo for an arena event can be estimated at 6000 cars for a sold-out or nearly sold-out event.[5] Varying of underlying assumptions within likely ranges works little change on this overall automobile total. The range of around 6000 vehicles seems the right number to work with. This compares as follows with assumed a counts for other events:

---

[4] The new arena would also attract non-sports events, including concerts, shows, and civic gatherings. The study posits 42 such events over the course of a year. Generally, these events would draw substantially smaller attendance and, accordingly, less traffic. Adding them to the traffic analysis probably adds little weight to the traffic impact conclusions, *except when such events would present an overlapping with a concurrent event at one of the other SoDo venues. See discussion below.*

[5] The Study projects that for an attendance of 20,000, 81% of the attendance will travel by car at a rate of passengers/car of for a total of 6,022 cars. This joins the assumption that 13% will arrive by transit (see below; this percentage is higher than Mariners' actual experience by 1%) and 6% will arrive by foot or bike (this is the same share as Seahawks experience and a bit lower than Mariners' experience). Seahawks' experience is an auto count of somewhat more than 14,000 (plus another 2400 patrons who are dropped off, presumably by auto). Mariners' experience (for an attendance of 30,000) is an auto count of 7,785. Enormous refinement could be thrown at these assumptions, but so long as the arena were drawing full houses, the traffic generation of car is likely to be close to 6000, one side or the other. Attendance at WNBA games may be somewhat lower and automobile generation therefore somewhat less.

	Attendees	Cars
Mariners	30,000 - 47000	7,785 – 12,196
Seahawks	67,000	14,222
Sounders	38,500	8,172
NBA Team	20,000	6,022
NHL Team	20,000	6,022
WNBA Team	8,000	2,409

On how many dates would events occur?

The existing sports venues in SoDo account for events up to 130 dates in a year:

	Weekday (Mon. – Fri) 261 possible dates		**Weekend (Sat. – Sun.)** 104 possible dates	
	Base	**Banner**	**Base**	**Banner**
Mariners	55	63	26	29
Seahawks	2	4	8	9
Sounders	8	12	12	13
Sub-total	**65**	**79**	**46**	**51**
Dates when two or more events would occur	1	1	5	5
*Table excludes other events such as concerts, etc.				

Sporting events at the proposed new arena are projected as follows:

	Weekday (Mon. – Fri) 261 possible dates		**Weekend (Sat. – Sun.)** 104 possible dates	
	Base	**Banner**	**Base**	**Banner**
NBA Team	33	47	12	14
NHL Team	28	39	13	18
WNBA Team	10	15	8	9
Sub Total	**71**	**101**	**33**	**41**
Grand Total	**136**	**180**	**79**	**92**
Dates when two or more events would occur	6	22	5	12
*Table excludes other events such as concerts, etc.				

To summarize:

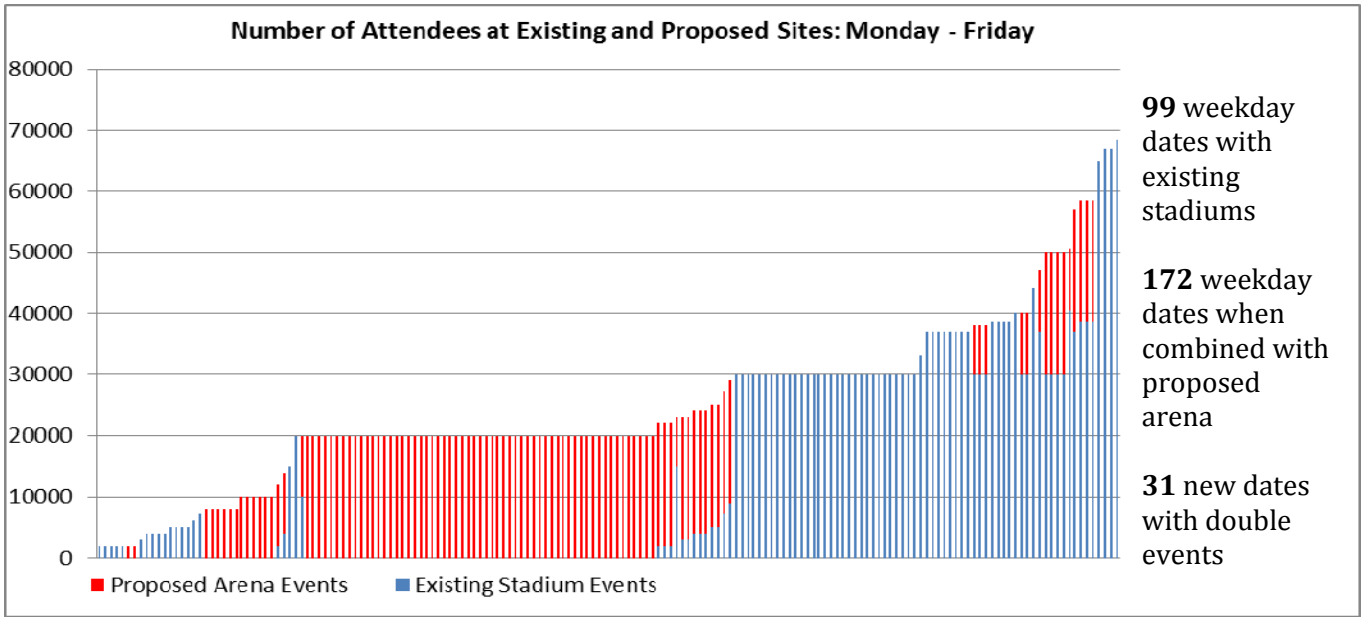
In a base case year, the proposed arena would:

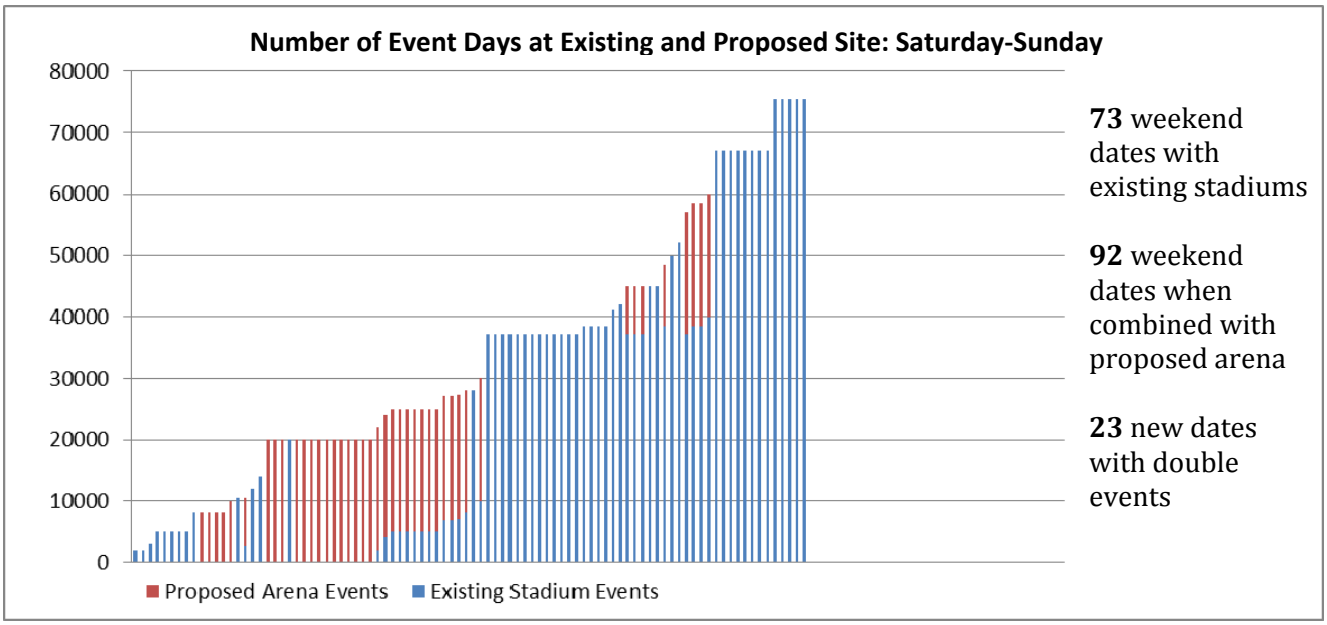
- Add sporting events on 65 weeknights (Monday-Friday)
- Have 6 new double event weeknight dates
- Add sporting events on 28 weekend dates (Saturday-Sunday)
- Have 5 new double event weekend dates

In the banner year case, the proposed arena would:

- Add sporting events on 79 weeknights (Monday-Friday)
- Have 22 new double event weeknight dates
- Add sporting events on 29 weekend dates (Saturday-Sunday)
- Have 12 new double event weekend dates

A simple visual representation of the frequency and scale of events added for an arena venue is shown below (includes non-sporting events):





Framing the Impact Assessment

This means that a threshold way of starting the impact assessment is with these two questions:

- On weekday afternoon/night traffic conditions, what will be the impact of 6000 cars added to traffic and parking demand on what might be as many as 65 additional days of the year?
- On weekend traffic conditions, what would be the impact of 6000 cars added to non-sports event traffic and parking demand on what might be as many as 28 days of the year?
- "Double dates" present special problems and unique circumstances and management requirements. "Double dates" involving a Seahawks game are officially discouraged and perhaps prohibited by the City. Other double dates in the base case year would increase from 1 to 7 on weeknights and from 5 to 10 on weekends. Increased frequency of these events over today's experience would primarily occur in circumstances were team's seasons were extended into playoff schedules when the number of weeknight double dates increases to 23 and weekend double dates increases to 12.

Getting the Traffic to SoDo

Any person traveling in Downtown Seattle or on the region's freeways understands that sporting events in SoDo affect regional traffic. The Study addresses traffic

issues in the immediate vicinity of the new arena, but offers little insight on how the new Arena would affect regional traffic. This needs to be further considered.

The expectation of the proponent is that *at least* 50-60% of sports events attendees at the arena will likely come from outside Seattle (citing Mariners' experience that more than 60% their fan base is outside King County, not just outside Seattle).[6]

This underscores the importance of the very limited information in the Study, about how automobile traffic would reach SoDo. The Study's suggestion is that 40% of the traffic would arrive on I-5 from the north (including a significant volume joining I-5 from SR 520 and the eastside); 20% would come on I-90 from the east; 20% would come on I-5 from the South; 10% would come on SR 99 from the south. Only the remaining 10% would be "local," which one assumes to mean arriving on local arterials and not the regional corridor routes described above.

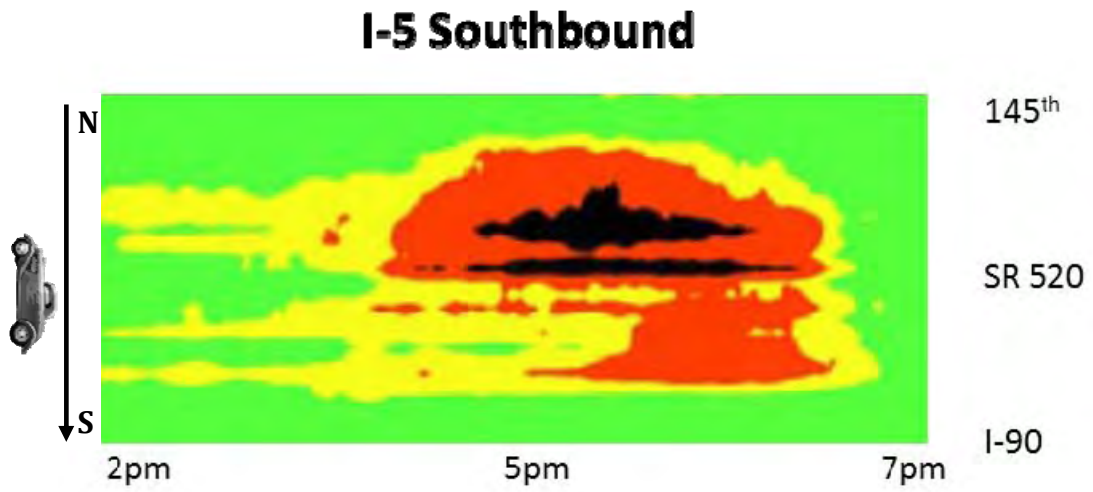
From this we can roughly quantify that something like 5000 cars for each event would be using the regional freeway corridors to reach events at a new SoDo arena.

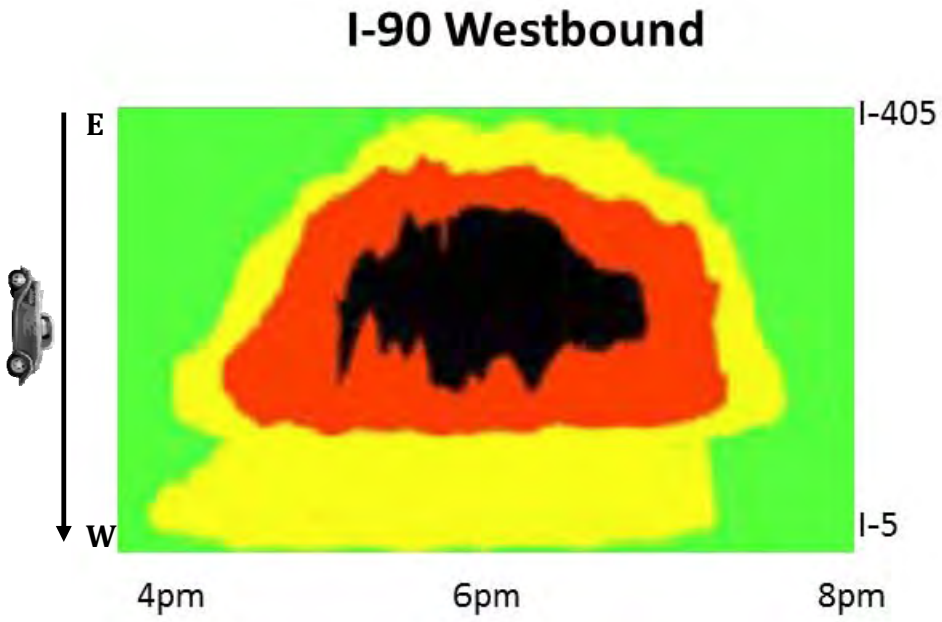
What is this volume of added traffic on the regional freeways in the context of "normal?" Note should be taken that the Study suggests patrons for arena sports events will likely time their SoDo arrivals much closer to game start times than is typical for a broad range of Mariners attendees; for this reason we have put special emphasis on the 6 p.m. to 7 p.m. hour in the following chart that essentially depicts "background" conditions.

April – September 2011 Weekdays – No Mariners Game* *Data supplied by PURC from WSDOT highway loop traffic data.			
	Average hourly volume		
	4 p.m. – 5 p.m.	5 p.m. – 6 p.m.	**6 p.m. – 7 p.m.**
I-5 Southbound at NE 63rd	5,504	5,714	**5,062**
I-5 Northbound at Oregon Street	7,064	6,311	**4,765**
I-90 Westbound at Rainier Avenue	5,039	5,001	**4,637**
Total I-5 NB + I-5 SB + I-90 WB	17,607	11,7026	**13,864**

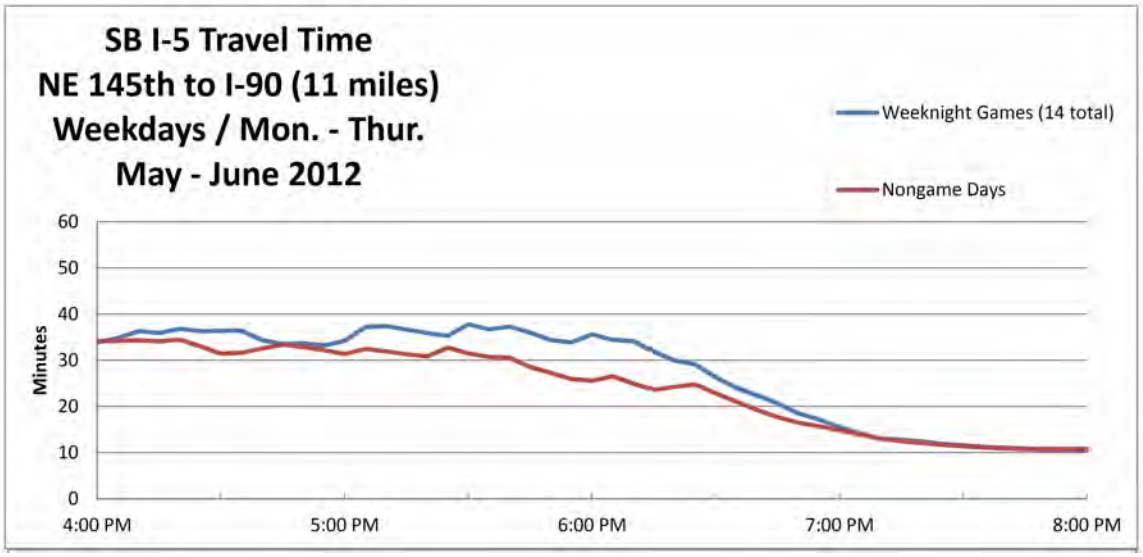
This suggests in very broad terms that if 5,000 cars sought to reach SoDo on the regional freeways between 6 p.m. and 7 p.m., it would add about 25% to the "background" traffic volume coming into Seattle on the freeways at that hour and push the level of traffic at that hour into or beyond the range of peak commute period "background" hourly volumes between 4 p. m. and 6 p.m.

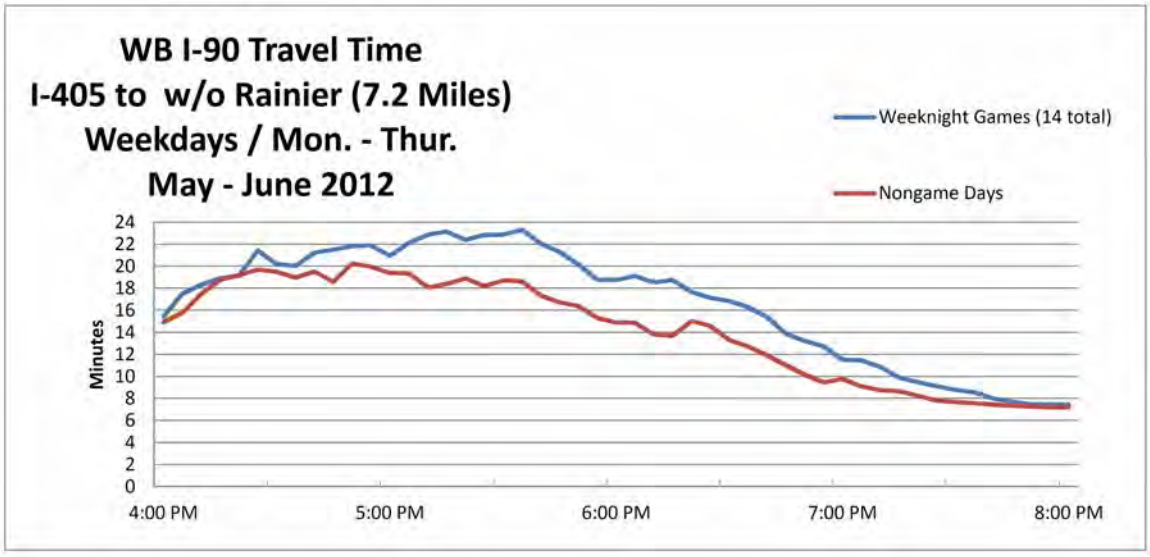
These traffic volumes on I-5 and I-90 are often associated with heavy congestion and stop-and-go traffic. Even on non game weekdays:





We also looked very generally at freeway travel data from WSDOT sources to see whether congestion would be worse and speeds lower on weekdays featuring a Mariners game. The results generally confirm what anyone who works in Downtown Seattle or travels the regional freeways through Seattle already knows: Volumes tend to be higher and speeds tend to be lower on Mariner game nights. These very high level results, however, conceal quite complicated and varied specific details that strongly suggest the need for additional analysis before accepting general conclusions of the "game day" effect.





The I-5/I-90 interchange – perhaps the entire region's most congested highway chokepoint and often cited on list of nationally-prominent highway congestion trouble spots -- and associated ramps that access SoDo venues are less than a mile as the crow flies from the arena site. This the Study duly notes, though in cursory fashion:

> Regional routes such as I-5, I-90 and SR-99 are heavily used by people driving to the stadium and become congested during larger events. These routes access the parking facilities at most directly serve CenturyLink Field, Safeco Field and the proposed arena parking. These routes experience higher than normal congestion during the weekday evening commute times between 3 PM and 7 PM.

But the Study offers no analysis of how arena-bound traffic would affect performance – speeds, back-up lengths, congestion durations and so forth on the regional corridors.

The Study does, however, make this anticipatory ameliorating suggestion: Many event-bound autos might exit the freeway system north and south of the SR 519 (Edgar Martinez Way) access point. For example, choosing to exit I-5 (from the north) at [see page 10 of the study] James Street, 6th Ave S., or Dearborn Street exits, or (from the south) at 1st Avenue S or 6th Avenue S exits, making the final leg of their trip not directly to the crowded intersection at the corner of Safeco Field at 1st Avenue South and Atlantic, but via other city streets to possible parking locations.

While this may be a fair prospect, it merely tends to shift the effect of increased auto demand from the freeways themselves to the City's downtown or SoDo's local streets as drivers seek to approach the arena and also hunt for parking (see below). The complexity of predicting how local traffic will be affected is compounded by the uncertainty of how many of the same streets will (or will not) be affected by toll-induced diversion from the SR 99 tunnel, a question still fundamentally unresolved.

Absent considerably more detailed examination of these issues than the Study presents or than we as reviewers can offer without fuller immersion in all the technical issues, the Council is left mostly to speculation about how severely regional traffic flows will be affected by the proposed arena's attraction of automobile traffic on to the regional corridors and into the city.

It is also fair to note that a proposed SoDo arena is similar to new commercial complexes, residential developments or regional shopping facilities: Everything gets into the mix to manage growing demands for access, mobility and parking. It is highly unlikely that the City of Seattle would impose requirements on any developer of any project to fund basic expansions of the regional freeway system – and highly uncertain that such expansions are even the correct response to growing travel and traffic demands. To editorialize from our shared personal perspective, however, the issue certainly underscores the need for everyone concerned – governments, developers and travelers – to pursue design, installation and operation of state of the art traffic management systems to guide and manage freight, event and other traffic into, out of and through the SoDo area and optimize the reliability and efficiency of regional transportation system. That need is particularly evidenced when proposals like the arena are tied to significantly expanded use of private automobiles to reach important regional travel destinations.

Parking

The parking issue basically has two parts:

- Will there be adequate parking associated with the arena itself to handle the volume of cars (6,000 or so) expected for an event?

- What about the overflow – people looking for free or cheap parking in the arena vicinity or in the difficult situation when multiple events overtax the parking capacity of nearby parking lots and structures? What will be the parking issues presented in the neighborhood?

The first question is relatively straightforward provided that the arena proponent makes good on its stated interest of adding 1,500 new parking stalls in the neighborhood. In other words, for an evening event solely at the arena, there should be adequate parking capacity.

The second point is where the problems lie. Though "double date" multiple events may be infrequent, the parking issues if 17,000 or more vehicles need parking at one time will be very challenging for SoDo. The Study's suggests that the system is manageable if capacity is tapped within a 3/4 mile radius of the arena places an expectation that on-street parking or private lots will be found at a distance from the arena --including south of Holgate and east of the railroad tracks. But that is highly inhospitable to pedestrian access both because of distance but also because of the sorely deficient condition of sidewalks and other basics of pedestrian infrastructure. This prospect of cars driving around the neighborhood searching for parking is a prescription for very problematic microclimates of traffic congestion in areas of SoDo when placed in juxtaposition to business access and freight movements. These conditions may exist even for arena-only event dates if enough drivers eschew paid parking in favor of bargain or free parking on the streets and in the neighborhood.

The City has suggested that modern information systems to guide drives to parking can ameliorate some of the worst consequences of the parking/traffic flow management problems. This suggests an appropriate and probably necessary direction, but it involves a collaborative approach between SDOT, WSDOT and the SoDo venues, for which funding is probably not now available and which may face vigorous competition from other high priority needs when and if new funding does become available. A commitment to substantial cost support from the arena proponents and other SoDo venues is a real necessity to the success of the project, not merely a possibly desirable mitigation opportunity.

Transit

The projected automobile mode share for arena attendance is high: 81%. This joins with a projected 13% mode share for transit. The 13% projected transit mode share for the arena is slightly better than the overall experience for the Mariners at Safeco Field as reported by the Study.

Expectations for transit access mode share for the arena even in this modest realm are optimistic.

The expected attendance demographic (mostly from outside the City) combines with limited King County Metro service in the arena vicinity, generally speaking

there are no bus stops closer than 4th Avenue and low evening service frequencies (headways of 30 or 60 minutes on most relevant routes) suggest a generally low potential Metro ridership to events at the arena.

As for Sound Transit Link Light Rail service, it is at best (Airport Link) located at a walking distance of almost 1/3 of a mile from the arena; when East Link service commences at the earliest in 2023, its nearest stop for East Link will be at the International District Station a walking distance of nearly 2/3 miles from the arena. While theoretical *capacity* of Link Light Rail will expand as North Link and East Link ultimately come online, the arena proponent has not suggested an expectation of significantly increased *use* of light rail service, even with service to various Park and Ride locations.

Meanwhile, Sounder commuter rail service presents an important component of Seahawks attendance non-auto mode share. But there is no expectation that Sounder service could be laid on for the night-time relatively lower attendance travel requirements of arena patrons (as contrasted with Seahawks, select Sounders FC or weekend Mariners events where Sounder service has been used). As for the suggestions heard that transit access could be improved by a Link Light Rail or streetcar spur reaching into the SoDo district, the high investment requirement for such improvements and the limited benefit of serving only sports event patrons make these scenarios very improbable

The transit analysis – a very modest share of arena attendance -- does, however, drive this point: if transit mode share is even to hit the 13% expectation of the Study (and if it is possible to show any growth going forward) major attention will have to be paid to improving pedestrians' routings from bus or train stop to arena seat. Today, distances are far and environments are not hospitable. Major improvements will be required.

Pedestrian Issues

All attendees using transit and many of the auto drivers and passengers will have to be pedestrians when they actually reach and leave the arena. Especially for light rail riders and for drivers and passengers who park cars at any distance from the arena, the Study suggests that for "double date" events attendees might walk as much as three-quarters of a mile from south of Holgate and east of the several train tracks that lie just east of the arena site — existing pedestrian facilities range from only fair to poor or even non-existent. A "first class" arena would present a discordant contrast to the primitive – even unsafe (for example, the track crossings on Holgate) -- conditions that pedestrians on wet, dark winter nights would experience walking to the arena from some directions if dependent on today's sorely deficient pedestrian facilities.

Transportation discussions around the arena proposal have often touched on pedestrian facility improvements as a necessary accompaniment of the proposal. To

date, however (so far as we are aware), there have been no specific commitments made or no understandings reached about whether the resources for such improvements would flow from the developer or somehow be proposed at public expense amidst a very large need in other locations for pedestrian facility improvements.

Freight

I. Port of Seattle and Ancillary Activities

The Port of Seattle has major anxiety about how increased traffic in SoDo crimps the efficiency with which containers move in and out of the terminals. A Port operation that faces inefficiency in moving freight in and out of the terminal presents a big detriment to preserving and growing the Port's traffic volume, of the jobs and other economic benefits of that traffic. The competitive position of the Port – both among West Coast ports (including the Port of Tacoma) and even on the global stage of completive ocean freight dynamics presented by the Panama Canal widening and other changes in the fundamental structure of international freight movements -- is a dicey thing. Jobs in Seattle – a lot of jobs, and very good jobs – hang in the balance of the Port's competitive success and future growth. Moreover, maintaining the flow of containers through the Port has big economic consequences for Washington exporters -- especially agricultural exporters – who take advantage of very low cost shipping rates when they can fill containers that otherwise would deadhead empty back to the Far East. Exporters suffer if those containers are not moving through the Port of Seattle.

The weight to be given to these important concerns against the prospect of 6,000 cars coming to SoDo for scores of arena events in a year is hard to assess for these reasons:

- The success of the Port and the scale of its contribution to the local and regional economy turn on a host of contingencies, some global in scale. Holding the Port harmless from some added strain of local traffic in SoDo may be helpful to its success -- but it may not be sufficient for its success.

- Neither the arena proponent's traffic study nor the Port's responses have adequately described the traffic timing issue caused by terminal gates closing at 4:30 p.m. As long as this is the case, there need probably be very limited impact on Port terminal ingress and egress from evening traffic to arena events. Under what circumstances now or in the reasonably foreseeable future will terminal traffic move through the area after 4:30 p.m.? There does not now seem to be a clear answer to that question.

- Similarly, the immediate origin/destination of the Port's terminal-related traffic has not adequately been clarified. The arena proponent's Study suggests that containers move mostly between the terminal and the rail

yards on routes that lie entirely west of 1st Avenue South – thereby essentially being out of the zone of potential arena traffic. The Port has pointed out that a substantial fraction of the containers move directly to points east of 1st Avenue South – squarely in the zone of the arena's traffic effects – and that outbound containers coming to the terminal very substantially arrive to SoDo by truck and not be rail. This is important information for understanding how arena traffic might impinge on freight movements, but it needs to be taken together with the question of the *timing* of these freight movements and the potential that they do not coincide with likely arena traffic effects.

- The Port and the arena proponent/City have failed to unify their views (or cogently state their differences) about the value to Port operations in an arena scenario of many freight-related infrastructure improvements in the SoDo area. These include:

    - East Marginal Way Grade Separation;
    - Spokane Street Viaduct Widening adding new access ramps to/from 1st Ave. and 4th Ave;
    - Surface Alaskan Way and the SR 99 Tunnel; and
    - South Atlantic Street Overcrossing.

In the material presented by the Port, an important overall projection is that the number of truck trips generated by container movements to and from the terminal could grow from 7,000 to 11,500 trips a day to accommodate the Port's aspirations for growth. What is not clear, however, is at what times of day or at what locations and routes (keeping in mind the several Port container terminals, some located a good distance from the arena on Harbor island, for example) this additional traffic might be predicted to affect and how those circumstances would line up against likely effects of 6000-car week day evening arena events. This lack of a more precise picture of future trucking movements associated with potential Port growth weighs down the County Council's consideration of the arena proposal with a presents to the Council a difficult burden of speculation with respect to the arena proposal.

II. Freight Mobility Issues Not Directory Related to the Port of Seattle

The possible effects of arena traffic on freight, freight-dependent businesses and jobs in SoDo are not solely concerned with Port and Port-ancillary activities. Many of the freight-dependent activities in SoDo involve goods movement not tied directly to the Port or to the hours of Port-gate operation. Many do not include the draying of inbound Port containers or the arrival into of Port-bound export boxes. Indeed, many SoDo freight dependent activities are quite distinct from the international trade flavor of the Port business and involve such mundane and highly localized

freight activity as the provisioning of Seattle grocery stores, restaurants and the support of retail and office activity all over the City and the region.

These activities and their freight mobility requirements are not treated in any detail in the Arena Transportation Study, leaving an unfortunate vacuum in an important transportation topic decision-makers should have in view. Stakeholder commenters on the Study have stated general concerns but not filled the Study's void with analytic substance. This observation is not to suggest a conclusion one way or the other as to what implications such matters should have for a policy decision about the arena proposal. The issue is necessarily complicated – as well as important – but we have not seen adequate information from eager arena proponents or skeptical neighborhood stakeholders from which to suggest judgments.

Air Quality Issues

SoDo is an area for which there have been long-standing concerns about air-quality compliance. Substantial automobile traffic, diesel trucking, Port operations including vessel emission and extensive diesel rail activities in the area lie at the heart of this concern and the long-term activities around their management.

So far as air quality is concerned, the arena proposal on its face is fairly straightforward. Around six thousand cars, mostly from outside the City, will be added to the transportation emissions loading on about 80 occasions a year for NBA and NHL games and incidentally add to the City's carbon footprint. Air quality impacts will include not only the emissions generated from their arrival and departure from the neighborhood, but compounded by extra driving in the quest for parking, extra idling and the congestion these cars themselves encounter and may force on others as they affect all traffic in the neighborhood. These potential implications of such a large car-dependent development facilitated by public permitting and financial backing in the neighborhood should be developed – and laid to rest one way or the other – in any foundation for broad policy decisions on the development.

Transportation Management Plans and Cooperation Among the Venues

Safeco Field and CenturyLink Field have each entered into transportation management plans with the City. It seems clearly understood that the proposed arena will be wrapped into a similar plan. The performance standards incorporated into the plan – limiting the number of cars per 1,000 attendees -- will need to be quite stringent for events when arena events overlap with Safeco or CenturyLink events. Mechanisms to achieve the desired standard will have to be effective to protect against traffic and parking overload for "double date" situations. It is also apparent that effective transportation management plans will require overlapping

cooperation with Safeco and CenturyLink. To date there has not been any indication of how performance standards will be set, how they will be coordinated with performance standards for the venues already established in the stadium district, and what mechanisms for cooperation can emerge in the context of a three venue stadium district. Reassurance on this point – not only from the arena developer but also from the existing management at Safeco and CenturyLink – would be very important to see.

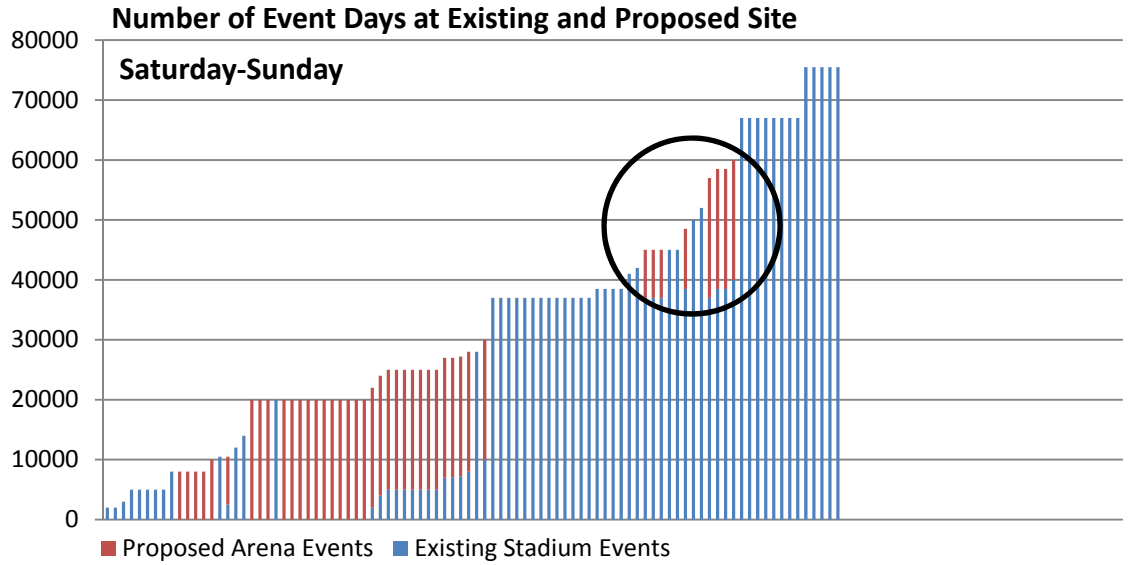
	Weekday (Mon – Fri) 261 possible dates			Weekend (Sat – Sun) 104 possible dates		
Safeco and CenturyLink Events						
	Base	**Banner**	**Assumed Attendance**	**Base**	**Banner**	**Assumed Attendance**
Mariners	55	63	30,000	26	29	47,000
Seahawks	2	4	67,000	8	9	67,000
Sounders	8	12	38,500	12	13	38,500
Sub Total	**65**	**79**		**46**	**51**	
Dates when two or more events would occur	1	1		5	5	
New Arena Events						
	Base	**Banner**	**Assumed Attendance**	**Base**	**Banner**	**Assumed Attendance**
NBA Team	33	47	20,000	12	14	20,000
NHL Team	28	39	20,000	13	18	20,000
WNBA Team	10	15	8,000	8	9	8,000
Sub Total	**71**	**101**		**33**	**41**	
Grand Total	**136**	**180**		**79**	**92**	
Added dates of two or more SoDo events	6	22		5	12	

Number of Cars:

Mariners: 7,785 Seahawks: 14,222 Sounders: 8,172 Arena: 6,022

Projected Dates Added to Existing Dates

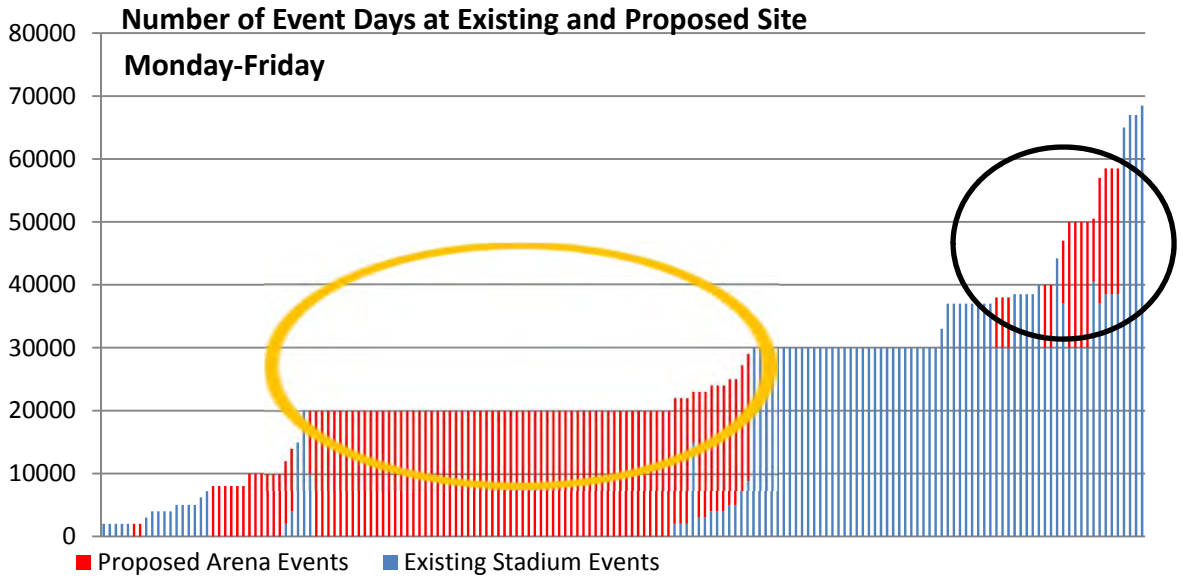
Base Year Scenario



73 weekend dates with existing stadiums

92 weekend dates when combined with proposed arena

23 new dates with double events



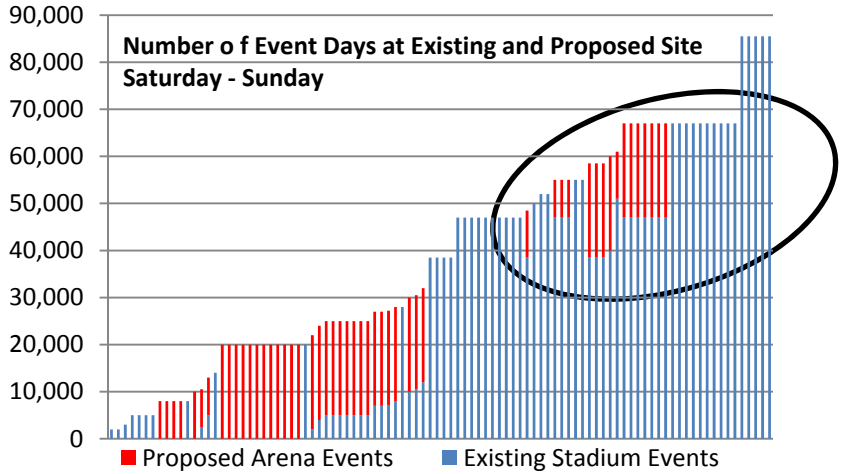
99 weekday dates with existing stadiums

172 weekday dates when combined with proposed arena

31 new dates with double events

Projected Dates Added to Existing Dates

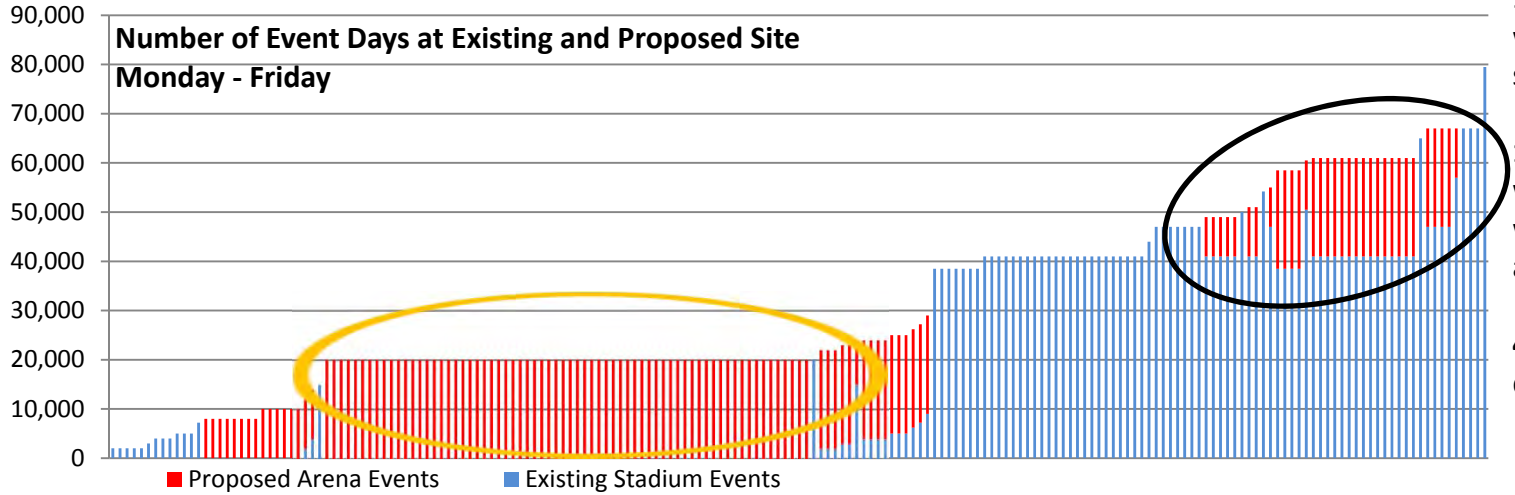
Banner Year Scenario



79 weekend dates with existing stadiums

96 weekend dates when combined with proposed arena

33 new dates with double events



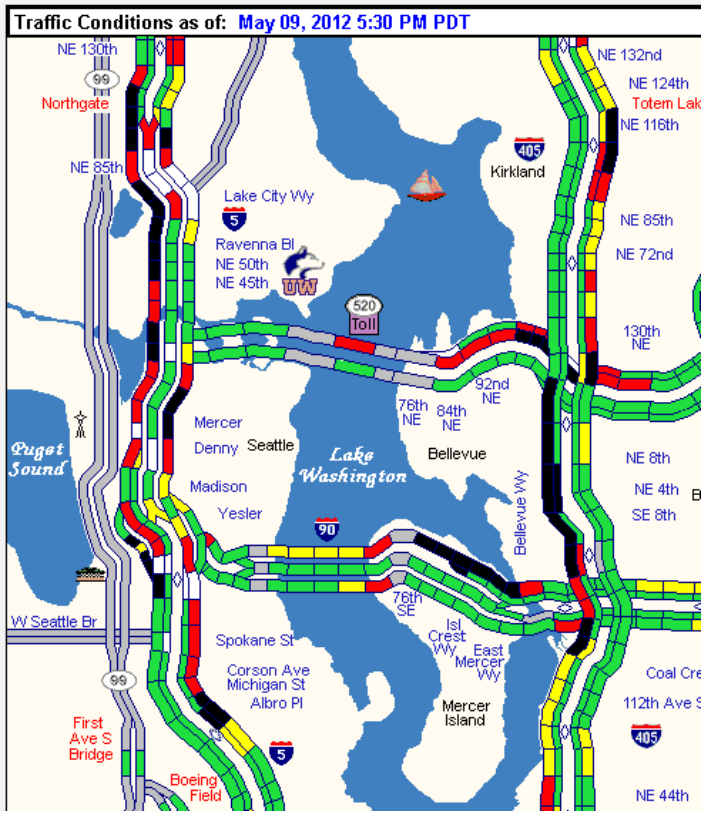
111 weekday dates with existing stadiums

193 weekday dates when combined with proposed arena

49 new dates with double events

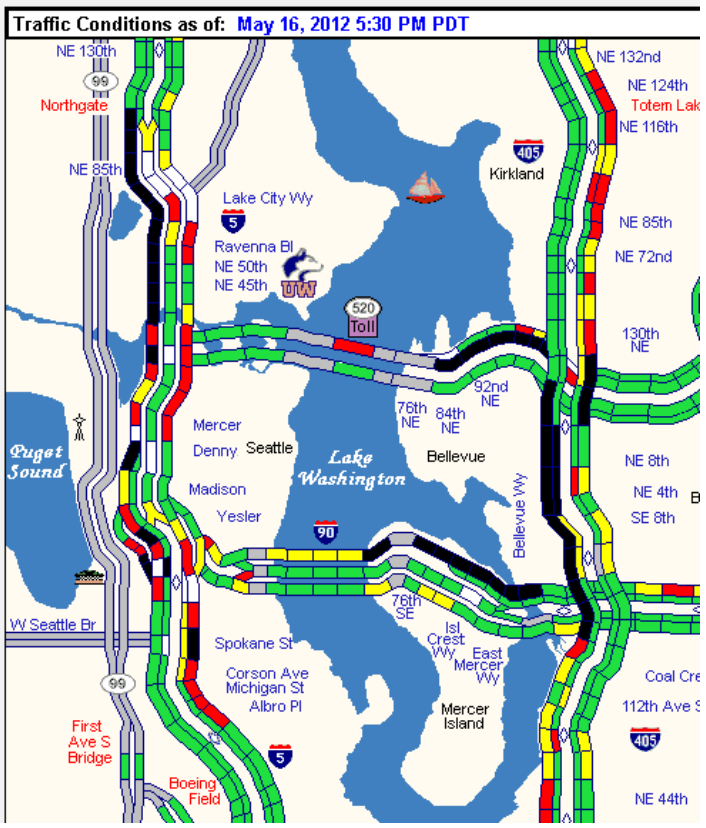
Regional Transportation Impacts

Wednesday
May 09, 2012
5:30 PM / Bridges Map



Game Day
Mariners v Tigers

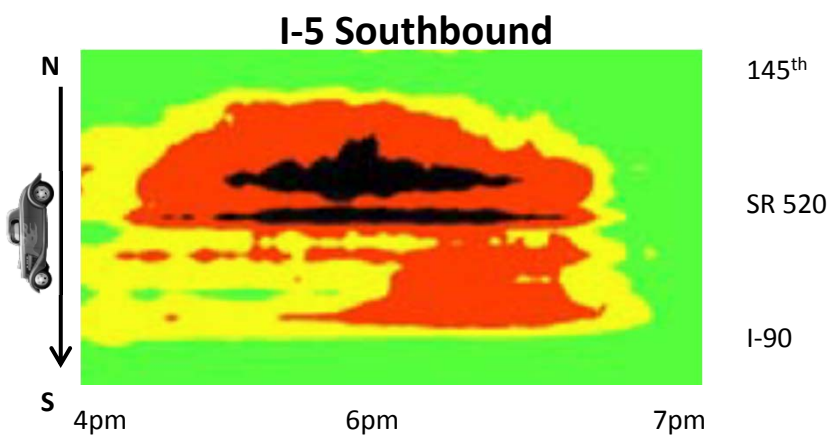
Wednesday
May 16, 2012
5:30 PM / Bridges Map

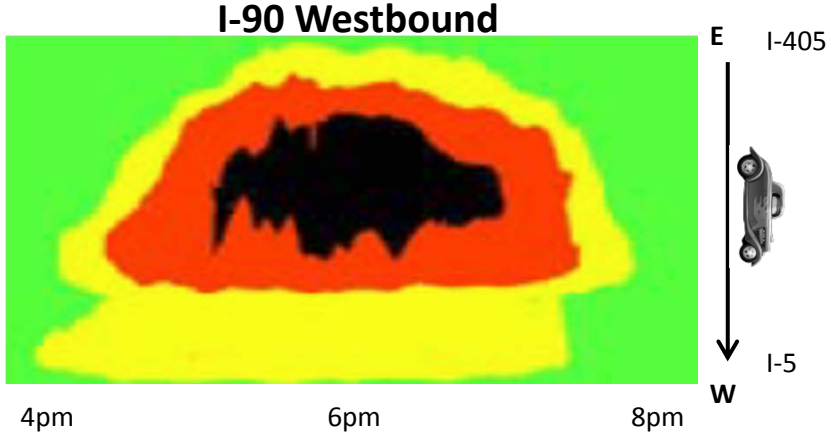


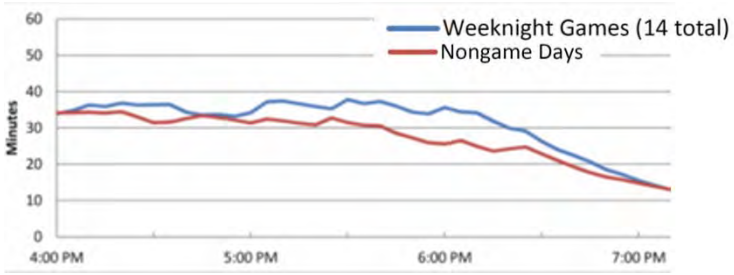
Non-Game Day

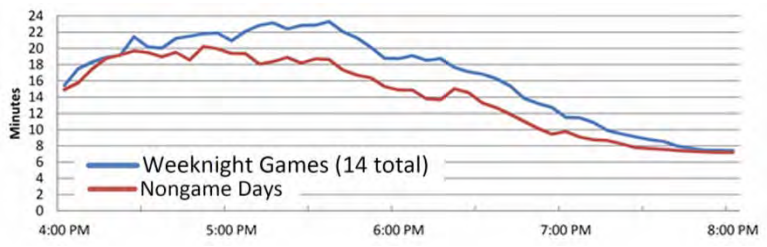
Freeway Congestion: When and Where

April – September 2011 Weekdays – No Mariner Game Data supplied by PSRC from WSDOT highway loop traffic data.			
	4 p.m.-5 p.m.	5 p.m.-6 p.m.	**6 p.m.-7 p.m.**
I-5 Southbound at NE 63rd	5,504	5,714	**5,062**
I-5 Northbound at Oregon Street	7,064	6,311	**4,765**
I-90 Westbound at Rainier Avenue	5,039	5,001	**4,637**
Total I-5 NB + I-5 SB + I-90 WB	17,607	17,026	**14,464**









Arena Proposal Land Use Issues
Steve Orser
July 9, 2012

We've been asked by the King County Council to consider the real estate issues surrounding the current ArenaCo arena proposal and particularly its impacts on Seattle's SODO neighborhood.

ArenaCo has bought multiple parcels in the Stadium District Overlay with zoning of IC-85 for the construction of a dual purpose NBA/NHL stadium.

Sport and event facilities have long been a staple of activity in this area south of downtown Seattle. The Kingdome hosted the Mariners, Seahawks and events such as concerts and shows (as well as the ephemeral NASL Sounders). And while those activities have not changed, the number of facilities has, with the advent over the last fifteen years of sport specific stadiums in Safeco Field and the Kingdome's successor, Qwest/Century Link field. The addition of a NBA/NHL arena would continue that trend, but with replacement by the successor to the Sonics to this part of town as well as the new addition to Seattle's sport scene of NHL-level hockey.

This increasing level of development and activity has continued a pattern of adding retail, restaurants, offices, some residential and even car dealerships to the industrial lands of south downtown. And while the process of that development has been obvious, it has also been fairly modest and certainly somewhat incremental for a growing city (especially compared to other areas such as Belltown, South Lake Union and Ballard to name a few obvious alternates).

However residential development, long suspected of being the proverbial monster to these south downtown concerns, is not likely to be that. Notwithstanding the current North Lot Development as well as other planned Pioneer Square residential development, residential in particular is not necessarily naturally well-suited to the synergies of events and sporting events. While exciting and interesting to be near on a temporary basis, the negatives include significant traffic congestion on event days and the surging and receding crowds that result from game/event day activities.

Certainly some examples of positive residential exist around the country, most notably Denver's LODO and more recently the area around LA's Staples Center. However those cities don't offer as many urban alternatives for attractive residential urban living as Seattle's various urban neighborhood do and SODO is not likely to be that residential destination.

And to that point, certainly the challenges of stadium attraction is well demonstrated on the retail front by the higher than typical retail vacancies in Pioneer Square and the highly publicized loss of key retail components such as Elliott. This tough economic situation for retail of course also leads to additional challenges to the residential character and attractiveness of the neighborhood.

So while other forms of use and resulting new development have their challenges in this neighborhood, they are evident. And even this slower pace of change still adds significant congestion and takes away resources to the manufacturing and shipping base of south downtown. In fact, attracted to the proximity of downtown, like the purchase of these sites for the arena, many industrial land use owners understand the economics and windfall of higher demand and higher resulting property values that can be achieved here compared to alternative locations for their lower margin businesses (frequently outside of the City). While this may not serve as a single tipping point, this proposal would likely continue the trend of changes in the composition of the south downtown neighborhood.

PROPOSED BASKETBALL ARENA: PORT OF SEATTLE

Comments by Dick Conway

Preface

The Port of Seattle has been a fixture in the Puget Sound economy for one hundred years. Its primary mission is to promote economic development in the region. According to the port's latest economic impact study (Martin Associates, 2009), "nearly 194,000 jobs across Washington state are associated with Port of Seattle business activities."

Recently, the Port of Seattle unveiled the outlines of Century Agenda, a twenty-five year plan to expand its operations and create another 100,000 port-related jobs. With regard to the planned expansion, port officials have expressed concern about the proposed professional basketball arena located south of Safeco Field. They contend that without substantial transportation improvements the arena would be a "job killer."

But will the proposed basketball arena jeopardize port-related jobs? Focusing on marine cargo, which is the source of the conflict, the following comments pose three questions about the seaport's role in the regional economy: What is the seaport marine cargo job impact? What is the likely job impact of the proposed cargo expansion? Considering the competition for marine cargo, what is the probability that the objectives of Century Agenda will be achieved?

Seaport Marine Cargo Job Impact

Of the 194,000 port-related jobs in Washington, 56,300 are associated with the seaport. Most of the rest are attributable to the airport. Seaport activity, which includes marine cargo handling, fishing, cruise ship services, and marinas, directly generates 21,700 jobs and indirectly supports another 34,600 jobs in the state economy.

Marine cargo handling creates 12,400 direct jobs and 20,900 indirect jobs in Washington. The direct jobs include ship pilots, dockworkers, truck drivers, railroad workers, freight forwarders, and port employees, among others. The indirect jobs are found mostly in trade, services, and local government.

The total employment impact of marine cargo handling is 33,300 jobs or 1.2 percent of total nonfarm payroll employment in Washington. The loss of the jobs associated with marine cargo handling would have a significant but not devastating effect on the state economy, since it is currently adding about 50,000 jobs per year.

In the unlikely case that the Port of Seattle shut down its cargo handling operations, it is doubtful that many of the 33,300 jobs would be lost. Most of the cargo and jobs would probably migrate thirty miles south to the Port of Tacoma.

Marine Cargo Expansion Job Impact

An important function of the seaport is to facilitate the transportation of the region's exports to foreign markets, since exports are the principal determinant of economic growth. The Port of Seattle points out that Boeing and Weyerhaeuser, two major exporters, are customers of the seaport.

But the seaport has no immediate need to expand its operations to manage exported cargo, since about one-quarter of the containers shipped to international ports now go empty. Many other containers carry low-valued products, such as hay. This seemingly uneconomical behavior arises from the fact that the United States imports many more goods than it exports.

Thus, the driving force behind the Century Agenda expansion of the seaport is the growth of imports. The seaport plans to expand container traffic from 2.0 million TEUs (twenty-foot equivalent units) to 3.5 million TEU's in the next twenty-five years, according to Century Agenda.

It is difficult to calculate how many jobs this expansion will create. Currently, about 70 percent of the imported cargo is bound for destinations outside the Puget Sound region. Given the small size of the regional market for imported goods, it is conceivable that as much as 90 percent of the future in-bound cargo will head to other parts of the nation.

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. If there are significant technological advances in cargo handling and transportation in the next twenty-five years, it is conceivable that the job impact of marine cargo will be no greater than it is today.

Seaport's Competition

It is hard not to conclude that all ports aspire to be number one. The Port of Los Angeles announced that it will spend $3 billion in infrastructure to keep its top ranking of U.S. ports. The Port of Oakland wants to "remain as a top 5-7 ranked U.S. port." On its web site, the Port of Seattle proudly points out that, in terms of TEU's, it is the largest port in Washington, the sixth largest in the United States, and the fifty-seventh largest in the world.

The keen competition among ports for market share results in low transportation rates, which benefit shippers. In the case of the Port of Seattle, the low rates preclude making a profit. As a result, the port levies a property tax on King County taxpayers to provide funds for capital projects. 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.

In light of the competition among ports, what is the probability and cost of achieving the Century Agenda objective of 3.5 million TEU's? The U.S. west coast ports are not the only obstacles that the Port of Seattle has to overcome. British Columbia and Mexico are expanding their seaport capacity. Widening the Panama Canal may turn out to be the Port of Seattle's biggest hindrance to growth. When the project is completed in two years, the canal will accommodate larger container ships, thereby reducing shipping costs. Undoubtedly, this will divert marine cargo away from west coast ports.

The Port of Seattle does not need to be reminded of the challenges confronting it. In May, the Port of Tacoma announced that it had lured the Grand Alliance shipping lines away from the Port of Seattle. The loss amounts to 400,000 TEU's or about 20 percent of the Port of Seattle container traffic.

Dick Conway
June 26, 2012