Maximizing the Economic and Social Impact of Seattle’s New Multi-Sport Arena

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Disclaimer

This project has been undertaken as a Policy Analysis Exercise for the Harvard Kennedy School of Government. Due to the limitations of both time and resources, this project works on the underlying assumption that the proposed arena will move forward on the terms and location delineated in the Memorandum of Understanding signed on October 15, 2012, by the King County and Seattle City Councils.

The author makes no claim or stance regarding any outstanding litigation or preference of the arena location in the SoDo district over other alternatives, nor has any research been done on those alternatives. Based upon the necessary scope of the project, all recommendations and assumptions are offered surrounding the proposed SoDo location.
Executive Summary

The construction of the planned multi-sport arena in SoDo will be a defining moment for Seattle. Not only will it restore the NBA to the city, it has the opportunity to catalyze development in the district and – in conjunction with the Alaskan Way Viaduct tunnel and waterfront development – help set SoDo on a development course for the next several decades.

This opportunity presents tremendous potential and prospective pitfalls. The $200 million public bonding contribution is not merely a financing mechanism; it represents a deliberate choice to invest in the SoDo district over alternate projects and programs, and the City must approach the development with that mindset.

This report focuses on key issues that the City of Seattle must assess and act upon to maximize the impact of this investment and the social benefit of adding new sports teams and a world-class arena. Some key takeaways include:

- City leaders must acknowledge a turning point for the SoDo district and act boldly. Over $800 million in public money has been dispersed among SoDo’s three stadiums. A piecemeal approach to zoning and long-term economic planning will impede growth and prevent the investment from achieving its full promise. A City commission focused on long-term visioning and re-zoning of SoDo to include the Port of Seattle, resident teams, waterfront development stakeholders, and other key players is essential right now and in all parties’ best interests.

- The City must demand philanthropic and civic contributions beyond simply the Sonics’ (and potential NHL team’s) presence. While the ArenaCo deal is undoubtedly generous as public stadium pacts go, without additional impact off the field, the team’s presence will lack the associated social benefit for non-sports fans and not reach full potential.

- A re-visioning process for the Seattle Center and KeyArena are necessary, so long as the City intends to fund the facility annually and keep it intact. It is already a misused asset and the transfer of major event traffic and dollars to SoDo will accelerate its demise.

- Creative partnerships will be an essential aspect of ensuring the maximum economic impact of the arena development and the return of the Sonics. This must include consideration of how to attempt to motivate spending by players and employees in
Seattle to generate tax returns for the City, as well as attention to city businesses – particularly in the Lower Queen Anne neighborhood – that may lose business as a result of the transition of major events to SoDo.

- Further research in various areas including public safety impacts, infrastructure needs, and economic effects present valuable long-term projects for the City to pursue.

With the right attention, the new arena’s value can far exceed its total price tag and the public’s $200 million support of the project, while becoming a model for other cities nationally. But City leaders will need political will, creativity, and tenacity to achieve the goals necessary to maximize this investment and make it more than just an arena, but a catalyst of long-term growth and sustainability in the SoDo district and beyond.
Introduction

For many citizens of Seattle, the 2008 departure of the NBA’s SuperSonics to Oklahoma City was a traumatic event. For the city’s diehard sports fans, part of their identity was taken away and a hole still exists in the city’s sporting landscape. The team’s exit also directly impacted many businesses and their employees creating a void where a vibrant social engine previously existed.

In June 2011, hedge fund manager Chris Hansen and his investment team approached City officials and began the process of resurrecting the SuperSonics and restoring NBA pride to Seattle.1 Over an arduous 18 months, Hansen and his ArenaCo investment group have come to a stadium agreement with the City and a team purchase agreement with the NBA. It appears that the team – in the form of the current Sacramento Kings – may be back in Seattle as early as Summer 2013.2

The speed at which the process has unfolded is a testament to the dedication and motivation of ArenaCo and the City and County towards their shared goal to bring the NBA back. It also ramps up the urgency of addressing the true impact of the stadium development and how to make the most of the presence of the new team and facility.

Goals of Project

The economic, social, environmental, and cultural impacts of the new arena are enormous. In approaching the project, I have taken into account the vast teams of City workers, ArenaCo employees, and outside consultants already addressing economic modeling, environmental impacts, traffic and infrastructure implications, and other aspects of the development. There is a small army working on the quantitative models, and I have largely drawn on their reports for quantitative input. In turn, I have not looked to further that investigation but instead to interpret different aspects of it for its implications on Seattle’s investment in the project and potential civic outcomes.

The main goal of this report is to provide a holistic look at the impact of the stadium on key constituencies and the city as a whole. With attention paid to qualitative rather than quantitative elements of the arena’s impact, this report addresses the following items:

- Maximization of the economic and social impact of the arena’s presence (and associated tenants) for the citizens of Seattle, including non-sports fans;
Proposals for new ways beyond economic impact that the City can push for public value add from the project and assess and present its value to citizens;

Mitigating negative impacts on adversely affected stakeholders, including the Port of Seattle and Seattle Center, through creative strategies;

Offering additional areas for research that the City may explore to further enhance the long-term net benefits to Seattle.

Not only are the Sonics and the physical arena tremendous assets for the city, but the impacts of their addition can far exceed those already being considered. While not all of these goals can be immediately realized, the larger the scope of considerations by City leaders, the greater the ultimate impact of the arena development is likely to be. This report attempts to broaden that scope beyond obvious benefits to other important efforts that Seattle’s leadership might pursue in conjunction with the project.

Methodology

Absent the need for additional quantitative work, this report draws heavily on qualitative research and analysis of existing quantitative data and academic research, as well as the input of City officials and key stakeholders.

Over the course of five months, beginning in October 2012, I conducted 14 interviews with leaders throughout the community. The full list of individuals interviewed for this report can be found at the conclusion of this report (page 55).

In addition, a wealth of academic research exists detailing the successes and failures of other U.S. cities in constructing sports stadiums. This report draws heavily on the economic assessments that have been developed during America’s great stadium boom of the past 20 years. This economic research has been refined and interpreted through the unique prism of the planned SoDo arena.

Finally, the experiences of other cities have been incorporated into this report where relevant examples exist. This includes items related to rezoning, stadium structures, and other aspects of the project.
History of Seattle’s Stadiums and the Sonics

For Seattle, the ArenaCo plan may feel like déjà vu all over again. Perhaps no city in America has had a more colorful – and controversial – experience with stadium development over the past 20 years than the Emerald City. The ArenaCo development marks the city’s third new stadium since the mid-1990’s and the fourth major public financing initiative related to stadium development in the same period. This past is an important precursor to the present case and accentuates the need to maximize the real public value of this latest expenditure.

Stadiums

The modern history of public investment in Seattle’s stadiums dates back to 1968, when King County voters approved $40 million for construction of the King County Multipurpose Domed Stadium. Popularly known as the Kingdome, the facility would open in 1976, and stand until 2000, playing host to the Seattle Mariners (MLB), Seattle Seahawks (NFL), Sonics, and countless other smaller scale sports teams and major events.

Fast forward to 1995. That year, the Mariners developed a proposal for a $410 million baseball stadium with a large share of financing to come from public sources. By a margin of 50.1% to 49.9% (just 1,082 votes), voters rejected a ballot measure to use public money for the stadium, which threatened to run the Mariners out of Seattle. In response, the State of Washington soon pushed through a creative financial package that included a special tourism tax to provide $336 million in public money for construction of a new stadium. The Mariners would add a commitment of $75 million (and ultimately contribute a total of $126 million as part of their agreement to cover cost overruns) and began building what is now SafeCo Field in the city’s SoDo district.
The same year as the failed ballot initiative, KeyArena, home to the SuperSonics, reopened following a $74.5 million public investment in the facility. The spending served to lower the building 30 feet, expand seating capacity, improve sightlines for NBA games, and improve acoustics. The history of KeyArena is expanded upon in the following section.

In 1997, another vote regarding stadium funding came before Washington state voters, proposing $300 million in public money towards a $430 million stadium for the NFL’s Seahawks. By the narrowest of margins – incredibly, once again 50.1% to 49.9% - voters this time passed the measure, and the stadium would open in SoDo, adjacent to SafeCo Field, in 2002.

This abbreviated history illustrates two essential points for City leaders to acknowledge:

- Seattle and the State have invested over $700 million in public money in sports stadiums since 1995;
- Support in the city, county, and region is far from unanimous on the use of public funds for stadium development.

The importance of these facts will be revisited upon as we look at how to maximize the ArenaCo investment and further leverage these past ventures for the benefit of the city and its citizens.

**Sonics Legacy and Departure**

The Seattle SuperSonics were a part of Seattle for over 40 years from 1967-2008. Generations of Seattleites have memories of attending games and of the city’s only championship parade in history following the 1979 NBA season. The franchise has featured NBA legends and Hall of Fame inductees and is remembered for engendering one of the most loyal fan bases in the NBA. Many interviewees noted that Seattle is first and foremost a “basketball town”. NBA legend Magic Johnson – a Sonics rival during his playing days in Los Angeles – recently told a gathering in the city that he thought they deserved a team and hoped they would have one soon.

The Sonics departure for Oklahoma City, immortalized by the documentary film “Sonicsgate,” (from which much of the following account has been drawn) shows the depth of the trauma incurred by many citizens when they were relocated. For sports fans, the cut was deep and won’t be healed until the NBA returns to Seattle. The investment by ArenaCo and efforts by the City and the ownership to bring them back has been cheered by thousands of Seattleites. There is clearly public value, both in ego and in city camaraderie,
that comes with their return. While this report doesn’t delve into that value in economic terms, Chris Hansen and his investment team have already put a lasting mark on the city with their efforts.

In 2006, the Sonics ownership group, headed by Starbucks founder Howard Schultz, attempted to persuade the Washington State Legislature to update KeyArena. Both he and the NBA had deemed the facility unfit as a state-of-the-art, profitable NBA facility in spite of a $74.5 million investment by the City in 1995. The new plan called for a $220 million upgrade with only $18 million from the ownership group and the rest from public funding. Public officials swiftly rejected it.

As a result, Schultz sold the team to an ownership group headed by Clay Bennett, a businessman from Oklahoma City. Bennett promptly pushed the City for a new or renovated arena, at a price tag of $500 million. His ownership group never made a formal financial proposal, but estimates suggested about $100 million in private contribution to the project with the balance being paid by the City of Seattle or the State of Washington. Many critics believe that Bennett never had any intention of keeping the team in Seattle and the massive public subsidy requested was just window dressing for his inevitable plans to relocate the team to his hometown.\(^\text{10}\)

In March, 2008, a group headed by Microsoft’s Steve Ballmer made a last gasp effort to Save the Sonics – the rallying cry of Sonic faithful – by offering to pay for half of a $300 million renovation to KeyArena, with the cost split between public sources and their group.\(^\text{11}\) The plan did not succeed, however, and the team moved forward with its plans for relocation.

The Sonics moved to Oklahoma City in advance of the 2008-2009 NBA season and were renamed the Oklahoma City Thunder. Clay Bennett is the current owner of the franchise, the Sonics 1979 championship banner, all of the Sonics history, and the nickname, SuperSonics.\(^\text{12}\)

Their acrimonious departure has only furthered the excitement surrounding the team’s return among Seattle’s sports faithful.
**ArenaCo Development Plans**

Conversations between the City and ArenaCo, led by Chris Hansen, regarding bringing the NBA back to Seattle and constructing a new arena began in mid-2011. By October 15, 2012, a Memorandum of Understanding had been approved by the Seattle City and King County Councils for ArenaCo’s planned arena development, contingent upon the purchase of an NBA team. By any measure, the process has been expeditious, particularly for an expenditure of this scale on both the public and private side. That speed speaks to the enthusiasm of the investment group and City leadership in restoring the NBA to Seattle and committing funds to the arena’s construction. While a few challenges, both legal and environmental, remain to the process, this report assumes that the SoDo arena development plan will move forward along the following specifications.

**Location and Specifications**

According to the MOU signed in October 2012, the facility will be developed with the following specifications:

- Occupy approximately 700,000 square feet of usable space;
- Include approximate seating capacities of 19,000 attendees (concerts), 18,500 attendees (NBA), and 17,500 attendees (NHL).

Additional plans have been floated for recreational activities and concessions surrounding the stadium, but no formal plans yet exist.

The yellow outline marks the proposed location for ArenaCo’s new multi-sport facility.
Financing

The City, County, and ArenaCo deserve credit for the creativity and good faith shown in developing the financing plan for the new arena. The City entered the negotiation with a very low risk threshold for the project, and the ArenaCo group stepped up to the plate with a variety of mechanisms to mitigate downside risk for the public. With that said, there are still substantial costs on both sides.

Here is an abbreviated summary of key provisions of the financing plan:15

- The arena is scheduled to cost $490 million, with $200 million supported by the issuance of public bonds (or $120 million if an NHL team is not secured in addition to the NBA team). These bonds, issued in two installments of 30 year bonds, will be repaid through admissions, sales, property, leasehold excise, and other taxes on associated arena revenues;

- Should arena revenue taxes fail to cover the bond repayment schedule, ArenaCo will finance any shortfalls;

- The proposed site, which has already been purchased by ArenaCo, will be sold back to the City and then leased to ArenaCo for a term of 30 years at an annual rent of $1 million;

- ArenaCo will establish a fund to cover infrastructure updates needed in SoDo to amount to $40 million;

- ArenaCo will fund up to $150,000 in costs and expenses to assess the future uses for KeyArena or the KeyArena site;

- ArenaCo will invest between $2 million and $7 million towards KeyArena (or its tenants) to accommodate for the NBA team’s tenancy at the building in its first two seasons in Seattle;

- ArenaCo is responsible for all operating and other associated costs related to the arena;

- ArenaCo will finance all capital repairs and improvements over the 30-year lifespan of the facility;

- ArenaCo will fund various reserve funds to cover debt payments, City bonding payments, and other key debt vehicles through any revenue in excess of initial projections to help insure long-term payment and diminish default risks.
Timing and Outlook

With the purchase of the Sacramento Kings and pending approval by the NBA’s Board of Governors, the timeline on this development plan is now very short. If, as proposed, the team will be relocated by next summer and playing at KeyArena for the 2013/2014 NBA season, the arena could be completed as early as 2015.

For this to happen, several variables must first be overcome. The first is the completion of the environmental impact study (EIS), which has been a main point of contention with the Port of Seattle. On February 22, 2013, a judge rejected the International Longshore and Warehouse Union Local 19 lawsuit against the City and County for expediting the MOU process without approval of an EIS. However, the results of the EIS may still impact the City and County’s approval of the project and alter the steps necessary for construction to move forward.

Additionally, a second lawsuit filed on behalf of four Seattle “residents” and “taxpayer[s]” relates to the City’s investment in the project and the provisions of Initiative 91 (and the MOU’s compliance with it). Initiative 91 – drafted in response to previous public stadium subsidies – states that any public investment in sports facilities must yield a “fair value” return on investment, noted as:

> “Fair value is defined herein as no less than the rate of return on a U.S. Treasury Bond of thirty years duration at the time of inception of any such provision of goods or services, real property or lease; and further, such return shall be computed as the net cash on cash return, after interest and any financing costs, on the depreciated value of the cash investment of the City of Seattle in such goods, services, real property or facility, and shall exclude all intangible, indirect, non-cash items such as goodwill, cultural or general economic benefit to the City, and shall also exclude unsecured future cash revenues.”

Several officials noted that this provision is inherently vague. Nevertheless, the importance of returning real public value is implicit in City law as it relates to the arena development.

Along the terms of the MOU, it is reasonable to believe that the Seattle SuperSonics will be playing in KeyArena in 2013, and that the new ArenaCo facility, barring setbacks, could be operational as early as 2015. While optimistic, this represents the timeline that ArenaCo seeks and the City is bound to via the approval of the MOU.
Academic Research

Central to many of the ideas developed in this report are the conclusions of various economic studies and publications on the economic impacts of sports stadiums on development, wages, workforce, and other aspects of their host communities. Many of these takeaways will be referenced in passing throughout this document. Here are a few of the prevailing academic opinions on stadium development and its economic and social impact:

- According to many studies, and as noted by economist Andrew Zimbalist, “independent work on the economic impact of stadiums and arenas has uniformly found that there is no statistically significant positive correlation between sports facility construction and economic development.” This reference cites six studies that reached similar conclusions.

- The presence of sports teams may actually have a negative impact on employment and wages in the general Services and Retail Trade sectors (as defined by SIC Code).

- A limited amount of economic research has been conducted to put a monetary value on the positive public perceptions of having a pro sports team in a given city. But willingness to pay models and other approaches prove elusive in putting a hard number on this benefit. Some economists claim the need for teams to present elaborate economic impact studies to garner subsidies proves that this community benefit alone is not enough to justify the public investment.

- According to a study conducted in 2011, “basketball arenas are not primary catalysts of economic development but are instead economic complements.”

- Stadiums that do have beneficial economic impacts are usually defined by their specific location and ability to catalyze a specific geographic area with economic benefits.

- The main inhibitors to positive economic impact of sports team are substitution effects, leakage of player and team employees’ salaries, and negative effects on local government finances.

- Multiplier effects are regularly overstated in economic impact studies as they relate to sports stadium development.
While the above results are cited accordingly, it should be noted that many of these effects are fairly uniform through most research uncovered (and noted in the References section that begins on page 55 of this report).

The intent of the above citations is not to be a skeptic. But with almost no exception, independent economic research is unfriendly to the impacts of sports stadium. This reality accentuates the need for City leaders to assess the true value and benefits as the ArenaCo plan moves forward and employ creative tactics to capitalize fully on the development.
Key Issues and Challenges

ArenaCo’s investment represents not only a new sports arena, but a chance for the City to address unresolved issues that relate to the other stadiums and the SoDo district. The project has the potential to be an incredible catalyst for local economic growth, social benefits, and civic improvements. But the challenges are many and political will, additional public investment, and strong cooperation from various competing stakeholders will be necessary to achieve loftier goals.

Presenting the Public Value

There is no doubt that having the Sonics back is a tremendous boon to the city and its sports fans. Their return will be reason enough to rejoice for many Seattleites. But academic research on the pure economic impact is checkered at best.

It is therefore essential that Seattle’s leaders find additional non-economic ways to create public value and showcase the benefits of the arena and the presence of the new team(s). With public funds committed to their facility, it is imperative that this outlay be justified to tax paying citizens.

Many people will see no direct tangible benefit to the Sonics’ presence. Both non-sports fans and those that cannot afford to attend games (ArenaCo has put in admirable provisions to make more seats than mandatory affordable to low-income individuals, but there will inevitably be some people shutout nonetheless) should be rewarded for the public’s contribution.

The following represents a few approaches the City may consider to expand and promote the development’s public value.

Philanthropic and Social Benefit Opportunities

The Sonics will obviously have immediate notoriety and large visibility throughout the region and beyond. Along with this attention comes a massive opportunity to generate attention for other important organizations and causes around Seattle. While the NBA (and other professional sports leagues) has mandatory charitable requirements for all franchises, there may be opportunities to extend these obligations into more imaginative and complete community initiatives.
Chris Hansen has been praised in interviews with City officials, business owners, and others for his roots in the Seattle community and genuine interest in supporting the city. Without additional financial investment and to the enhancement of the brand of the Sonics locally – perhaps nationally – he and the franchise can do a world of communal good through various activities.

Not all of the below will be revolutionary. Certainly ArenaCo and Mr. Hansen have already begun thinking about these activities. But these are some possibilities as to how the team can expand its reach and impact in the Seattle community that City leaders might help facilitate and bring to their attention.

**Team Partnerships and Health Initiatives**

There will be a line of local organizations awaiting an opportunity to work with the Sonics and generate attention and investment through access to the organization. The team will also participate in community service as part of its obligations to the NBA. But there is room to go further.

One possibility is regular competitions run by the team engaging local charities and other organizations to raise the most money, collect the most donated clothing, give the most hours of their time, or reach other goals, all in service of a chance to meet the team, appear on the court at halftime, or another incentive that draws on the team’s popularity. These small payouts can make the Sonics a stimulus to make other organizations work harder and better in the community, while generating an exciting incentive for them to reach new heights.

The Sonics and associated entities may also consider investment in more public recreational facilities, including outdoor or indoor basketball courts for use by youth groups. These may be targeted at low-income areas – where property may be available and at a lower cost – and create a public asset to combat childhood obesity and other social challenges in the community. In discussing uses for the waterfront or other potential development in SoDo, pending rezoning discussions, opportunities may exist for recreational field development as part of those lands as well. Not only would these amenities provide public utility, they may also sow the seeds for further interest in the team and the sport of basketball, a mutually beneficial outcome for the City and the team’s owners.
**Strengthening Player-Driven Charities**

A recent report in *The Boston Globe* noted that charities started by professional athletes have extremely poor records of social impact due to poor management, inability to raise funds, and major structural problems in their business plans. Among the 50 charities it analyzed, more than half spent less than 35% of revenues on actual charitable programs and donations.27

The athletes that come to Seattle along with relocated NBA and NHL franchises will likely take an active interest in the Seattle community and seek to set up charities of their own, using their popularity as a positive resource for their chosen causes. This is an effort that is welcomed, encouraged, and exciting for the city.

But as the above report points out, these charities may have limited impact if they are not managed properly, which is common in peer organizations. One way the City can ensure greater efficacy by these nonprofits is to encourage the ownership group to set up support mechanisms to properly train managers at players’ charities and maximize their functionality. The City may also have training resources available to support these individuals in becoming educated and responsible nonprofit leaders able to make their desired social impact.

By encouraging the team to provide resources or using City programs effectively, Seattle can ensure that these new charitable efforts achieve greater results and the community sees even more benefit from their presence.

**Creative Employment Programs**

ArenaCo has already entered agreements with concessionaires and stadium employee unions, which is an important and laudable milestone.28 In addition, key provisions of the MOU call for employing minority-owned contractors as part of development plans.29

ArenaCo deserves commendation for already considering these critical issues and engaging a broad range of the community in the employment opportunities related to the construction and operation of the new facility. Certainly these agreements will constitute a majority of stadium employees, but it is nevertheless worth exploring other potential avenues to add social benefit via employment at and around the new arena.

San Francisco-based Juma Ventures has recently entered into a partnership with the Mariners and SafeCo Field that will begin in April of this year. The organization currently works with sports franchises in four cities – San Francisco, Oakland, San Diego, and New Orleans – to employ low-income students at vending and concessions at major stadiums. In tandem with providing employment
opportunities, they provide financial literacy education and a bank account, as well as a 2:1 match for every dollar saved for use on “qualified educational expenses” With the goal of breaking the poverty cycle, Juma Ventures provides additional academic support and works with students to create a lifelong career path. Last year, their partnerships generated employment for 400 youths, including $110,000 in savings for college. The organization reports that every one of its participants graduated from high school last year. If the possibility exists, ArenaCo might explore partnering with Juma Ventures – or a comparable organization – to further the social impact of job creation surrounding the arena. For the City and low-income citizens of Seattle, generating positive social benefit beyond the natural outgrowth of additional employment is a welcome outcome. The City should work with ArenaCo to explore the full range of employment opportunities that exist at the new arena and any possibilities to further engage Seattle’s youth and other workforce that may benefit from these new opportunities.

**Sponsor Contracts with Public Investment Provisions**

One of the important revenue streams for the franchise will be sponsorship agreements related to various stadium assets and services from naming rights to the right to sell concessions and more. These agreements create a needed windfall for a profitable and competitive sports franchise.

But along with the financial benefit for the Sonics, opportunities exist to create additional charitable giving for the community and its non-profit organizations from corporate partners. Because many corporations have corporate social responsibility-specific goals (and budgets), sponsorship contracts can be asked to include additional provisions for public investment. Sponsors can then draw from foundational or CSR budgets and actually provide the team with more money (at no expense to their corporate partnership) to the great benefit of the Seattle community.

This is a win-win-win situation. The corporate sponsor is able to advertise their investment in the city and raise their profile outside of the arena’s walls. The Sonics become a model for public giving and creative partnerships to be admired by citizens and emulated by other teams. And Seattle receives generous investments from a variety of corporate entities that would not have otherwise donated in the community. It is truly a way to make everyone better off in their business and social goals.

Obviously City officials cannot directly influence these negotiations, but promoting this possibility with the ownership group and continuing to press for public involvement by the Sonics can enhance the chances for this kind of allowance from corporate sponsors.
Onsite Promotion of Youth Groups and Charities

While advertising space will clearly be at a premium and an important part of the arena’s revenue stream, the possibility to promote Seattle causes and organizations in small ways may exist through signage or other activities at the facility. Many teams offer tickets to youth groups in small numbers (often with an associated corporate sponsor) and offer them advertisement on the stadium’s video screens – or during television broadcasts – during timeouts or other stoppages in play. Limited signage may also be available, perhaps to a different organization each game, for complimentary or discounted advertising. These gestures, while small, can have huge impact on entities with extremely limited resources and excellent causes to promote to the Sonics’ or NHL tenant’s broad audience.

One more opportunity for the Sonics to engage the community may be to offer access to the new arena when the team is on road trips (assuming no other event is taking place) for youth leagues and youth groups to tour or play on the court. It is very possible that the arena will rarely sit fallow, however, if opportunities along these lines do exist, it may be one more way to incentivize charitable competitions or reward organizations and promote the Sonics and ArenaCo’s commitment to Seattle.

Catalyzing Impacts

City Councilman Tim Burgess noted the potential for this project – particularly the infrastructure fund and various planning studies – to serve as a “catalyst” for the SoDo district, a term used throughout this report. With more than $1.5 billion in overall investment (over $800 million in public money) to be invested in the district’s stadiums if and when the ArenaCo plan moves forward, it is about time. There is now massive public and private investment in SoDo and while the stadiums and the sports teams are wonderful assets, the actual value of this public financing beyond athletics has to be considered.

These items will largely be elaborated in other sections of this report, but two specific areas that the City should seek to catalyze with the ArenaCo investment include:

1) Infrastructure upgrades – Mike Merritt of the Port of Seattle noted that, while still opposed to the project, the arena discussion has at least brought to the forefront many longstanding infrastructure needs in the SoDo district that are of great importance to the Port. The new arena will certainly create more foot and automobile traffic in and out of SoDo. As a result, the City should use this opportunity to critically assess both essential and non-essential upgrades that will benefit the Port, stadiums, and other district tenants. Where possible, the City should seek to make productive upgrades and seek out state and federal support where updates serve immediate needs with real economic benefits. The ability to leverage increased traffic to access outside...
funding for infrastructure upgrades is a very tangible benefit that the city could ultimately realize from the development. The City should seek these “If not for the stadium…” outcomes in measuring and maximizing its potential impact.

2) Port and SoDo zoning – The Stadium Overlay Area appears close to its functional limits. More than $1.5 billion is now housed inside its borders, but extremely limited associated development has taken place. With the Alaskan Way Viaduct tunnel project to occur in the next several years, change is coming to the SoDo district in the form of added recreational activity and overall traffic. The City needs to make an honest assessment of its vision for SoDo. This discussion is elaborated in a later section of this report (see: Port of Seattle, Paths Forward), but is another real and potentially revolutionary benefit of the project. If the ArenaCo stadium can instigate a clearer and more productive vision for SoDo, it will have created a social benefit far in excess of its price tag for the City.

If the City can effectively use the SoDo arena to energize these much needed discussions and upgrades, that alone will be worth a very strong return for the City, SoDo, and Seattle’s citizens.

**Structure of Arena**

Mark Rosentraub, the co-Director of the Michigan University Center for Sports Management, has stated that one of the main civic benefits of a new arena is the facility itself. That is, the physical structure and its form can be one of the most tangible and beneficial assets that it conveys on the community.34

While design plans are already underway, the City should be taking an active interest in the plans for the arena and how the structure will fit into the SoDo district and add to Seattle’s image. The structure of the arena may also be a factor to consider in how it will be accepted by the Port of Seattle. A facility that fits into the existing industrial backdrop may be more welcomed than a sleek, ultramodern design that
signals a changing direction for the neighborhood. This is, of course, contingent on the desires of ArenaCo, but it is still a relevant discussion to undertake.

A key consideration for the facility should also be its design elements: how sustainable is the new facility? Does it have the potential to be “the most green arena in the country/NBA?” While these tags will likely be fleeting as new arenas continue to be built, the status can draw additional interest from other cities, point to the City’s social goals, and motivate other developers to construct sustainable and innovative new structures throughout Seattle.

The new Barclays Center in Brooklyn, New York provides an example here. The facility is certainly not a model to emulate for community relations, but the structure itself has created quite a bit of buzz, particularly in the architectural community. Seattle – and ArenaCo as well – should be looking to create the type of facility that not only houses the new team(s) and events but also generates outside attention for the city and motivates visitors and publicity.

Port of Seattle

The Port of Seattle is the sixth largest port in the United States by TEU volume and an important driver of the regional economy, representing over 21,000 direct and 34,500 indirect and “induced” jobs. The Port reports that one in three jobs in the state of Washington is tied to international trade, and Washington state exported over $64 billion in goods in 2011. The Port of Seattle is served by two major intermodal rail yards and its four container terminals cover over 500 acres of land. It is undoubtedly the major driver of the regional industrial and manufacturing economy and an important part of the middle-class base of the Greater Seattle region.

Port officials have noted that they are not opposed to the Sonics’ return or a new arena to house them; they oppose the development of such a facility in SoDo. Unfortunately, ArenaCo has already invested tens of millions of dollars in obtaining land in the district and is in advanced stages of designing their stadium and associated projects in the context of the Stadium Overlay Area.
Importantly, the Port of Seattle faces several other major challenges in addition to the proposed stadium development. The most significant may be the competition raised by Prince Rupert Port in nearby British Columbia. The Prince Rupert Port advertises its status as the “shortest sea and land route into North America,” and, more importantly, containers into its facility do not have to pay the $80-200 per container Federal Harbor Maintenance tax that Seattle (and all U.S. ports) must charge.\(^3\) This is a major business challenge and has led to massive growth in Prince Rupert’s operations to the detriment of regional competitors, including Seattle and the also proximate Port of Tacoma.

Additional uncertainty concerns the implications of the Panama Canal’s expansion, slated to be fully operational in 2014. Port officials are less concerned – and less sure – about the impact of this development on Port business.\(^3\) Nevertheless, it creates another potential pressure point for the Port’s operational aspirations as the market for world trade continues to evolve.

These challenges add up to a changing business landscape for the Port of Seattle. While long-term plans call for major expansion of Port operations, competitive challenges and international economic conditions are sure to present barriers. The stadium plan represents another threat to the size and scope of the Port and industrial tenants in SoDo. It is with these challenges in mind that the two entities find themselves at odds about ArenaCo’s plans and SoDo’s future.

**Infrastructure Needs**

The main thrust of much of the Port’s opposition to the ArenaCo development has been focused upon traffic implications and major impediments to smooth Port operations from increased foot and car traffic surrounding arena events. The impact of this increased traffic will, they contend, raise costs to Port customers and shorten the hours that it can operate. Specifically, the Port notes that “street vacations” for arena events will increase traffic on highways and elsewhere, and increased foot traffic will create dangerous conditions
Manufacturing Industrial Council Executive Director Dave Gering notes that the main concern for industrial tenants lies specifically in truck access to Terminals 30 and 46, which serve many industrial tenants who do not use rail access.\textsuperscript{41}

ArenaCo has countered that most traffic related to the arena does not start until well after 5:00 pm, while most union workers contracts mandate the end to their workday at 4:30 pm (before which they acknowledge congestion problems exist). They contend that the traffic impacts on Port operations will be minimal as overlaps between the facilities’ operational peaks are minimal.\textsuperscript{42}

In reality, the truth likely lies somewhere in the middle. ArenaCo makes a strong case, and its cameras (featured on the Sonics Arena Supporters website) reveal that traffic at key crossings between 6:00-7:30 – peak arena traffic times – does appear to be light.\textsuperscript{43} There may be additional capacity through which more traffic would be handled. The Port and its allies counter that this is simply a result of trucks already being diverted in anticipation of arena traffic on event days with many haulers refusing to use Terminal 46, the main terminal, after 2:30 pm on such days.\textsuperscript{44}

Not surprisingly, each side has presented reports that seem to bolster their stance. The true impact will be hard to discern until the arena becomes a reality.

For the City, the overall infrastructure needs and costs of those needs are likely understated. This is where the focus must turn, especially in accounting for the arena’s overall cost to Seattle. In her recent book, \textit{Public/Private Partnerships for Major League Sports Facilities}, Harvard professor Judith Grant Long discusses the “hidden subsidies” of stadium development. In terms of the 121 sports facilities in use in 2010, her research revealed that costs for land, infrastructure, operations, and lost property taxes added $10 billion to original cost projections.\textsuperscript{45} While the City is strongly protected against operational costs and land costs are accounted for, infrastructure costs are likely to add to the overall public price tag, even when including the $40 million ArenaCo fund.

One area of specific concern is South Holgate Street. With 17 rail crossings between 1st and 4th Avenue and 80-100 mainline crossings each day, it is a major throughway for both Port and transit traffic.\textsuperscript{46} Likely to be a major source of pedestrian traffic surrounding

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\caption{A railroad crossing near the intersection of South Holgate Street and 3rd Avenue}
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events, this intersection will likely require a major transformation – either a footbridge over the rail tracks or diversion of rail or road traffic. Some officials have suggested that arena patrons will quickly learn the dangers and adapt, but the City cannot sit idly and wait for such behavioral changes to take place. A 2010 study by the Seattle Department of Transportation previously called for a vast series of upgrades that have not yet been made to South Holgate. The new arena is sure to add to that list.

Another key point of concern is the intersection of 1st Avenue South and South Atlantic Street, which Port analysts cite as among their top concerns, specifically as related to the absorption of new traffic from street vacations and other diversions. A major intersection for Port traffic related to Interstate 90 and event traffic from the north and south, it is undoubtedly another area of legitimate concern.

Ultimately, the $40 million infrastructure fund promised by ArenaCo will provide a start but likely an incomplete amount for all needed upgrades. It will not be close to sufficient for major rail or roadway changes, if they are needed. These are a very real public cost to the project and could negatively affect event attendee experience and public safety if not handled properly. It is in all parties’ interests to develop a realistic and mutually agreeable plan to address these challenges as soon as possible.

**Zoning Issues and Property Values**

An important selling point from the ArenaCo team has been the positive impact that the arena will have on property values throughout the City of Seattle, starting in SoDo. For citizens and regional governments – who collect property tax – this is exciting news. For industrial tenants who occupy much of the land surrounding the facility with no intention to move, it’s an unwelcome increase in operating costs.

This gets to one of the most important issues surrounding the entire development project: the current zoning of SoDo. The City has already put more than $600 million in public money into two SoDo sports facilities. The new ArenaCo facility constitutes almost $500 million in public and private investment. The district is changing.

A quick but very important sidebar: the Alaskan Way Viaduct replacement tunnel is a key part of this change. At a planned cost of $4.25 billion ($2.8 billion from state and federal governments), when completed, it will create a two mile-long stretch of new waterfront for development on the edge of SoDo and Pioneer Square. The interest will obviously be intense with various park, commercial, and residential options under consideration. Even without the arena’s development, the waterfront project will create pressures on SoDo property values and on lessening the sounds and pollution associated with operating a deepwater port.
Undoubtedly, the pressure to redevelop parts of the waterfront, Pioneer Square, and SoDo will grow more intense with development of the arena. But other strains exist and the City’s leaders have now made too much investment in the region to delay conversation on the issue further.

**Paths Forward**

**SoDo 2020 Commission**

The most crucial need related to the new arena, waterfront development, and Port interests is a reimagining of exactly what the City wants SoDo to be in a generation. Billions and billions of dollars will have been poured into diverse development, yet the City recognizes the Port and industrial base as a crucial economic driver. Something has to give.

A City Commission to discuss the long-term vision for the SoDo district and the associated zoning is an essential step for City leaders to take in response to the ArenaCo development. In conversations with Seattle officials, many talked about the generative effect of the arena development. But two other stadiums have failed to propel the area, because the Stadium Overlay Area simply doesn’t allow for associated development on par with comparable projects in other cities (see Economic Development and Planning, Case Study: San Diego’s East Village).

In terms of composition, the City should consider the following stakeholders as potential members in the Commission:

- Port of Seattle
- Waterfront development representatives
- Team officials representing Seattle Mariners, Seahawks, and Sonics (relevant stadium owners)
- Industrial and other local business boards

Obviously given that the current zoning scheme favors industrial and manufacturing uses, the Port will have to make concessions to create other uses that appeal to the teams and developers. This report does not intend to predict all nature of negotiation that may take place, however, the City should be prepared to make creative concessions to Port leadership to advocate for more commercial or other uses. The Port has the most to lose and their interests are an important part of the future of SoDo. Some potential strategies to compensate concessions may include:
- Reinvestment plans for B&O and property taxes on new development towards infrastructure or Port-specific upgrades;
- Additional City resources towards federal lobbying initiatives to lower the Federal Harbor Maintenance tax to enhance Port competitiveness relative to Prince Rupert Port;
- Emulating a New York City plan that requires developers to put money into an infrastructure fund in order to obtain building permits in specific areas that have been rezoned.51

The composition and direction of this commission will inevitably be contentious and highly challenging for City leaders. They will also need to determine voting power and whether the SoDo 2020 Commission simply serves as a steering committee for new zoning plans that ultimately can be voted up or down by the City Council or another more direct function.

The ArenaCo development is one of the last remaining opportunities for the City to capitalize on the vast investment that’s been made in SoDo for the future of Seattle. It is not simply another stadium for a local sports team. It truly represents a once-in-a-generation opportunity to create a new vision for the SoDo district and engender a new future for the development and economy in one of the city’s final redevelopment bastions. This commission will hold vast weight in the future of the Port of Seattle and SoDo, and an opportunity to create a lasting and vibrant economic and social center for the next generation of Seattleites.

Identification and Early Address of Infrastructure Choke Points

The Holgate intersection represents one major issue that people on both sides of the discussion have identified as a potential pressure point when the arena comes online. If that is the case, it should be dealt with immediately with the requisite impact studies and mitigation designs, so that the process of lessening traffic and safety hazards can be undertaken as soon as possible. If needed upgrades are not in place when the stadium opens, it may impede Port operations and will be a major public relations headache for both the City and ArenaCo. Should the worst fears related to public safety concerns and pedestrian casualties – which have occurred in the past surrounding the stadiums52 - be realized, it would be a disaster for all parties. While the costs may be high for upgrades, the economic and personal impacts of the alternatives are too great to idly wait for. The City needs to both account for and deliver the upgrades necessary to keep SoDo safe and functional.

The intersection of 1st Avenue South and South Atlantic Street is another challenge that likely needs addressing before arena activity fully comes to fruition. Arena supporters have noted that the arena’s Transportation Management Plan will be similar to those deployed for other events, namely Mariners and Seahawks games at this precise location.53 But the exact nature of dynamic roadway usage and message signs is not yet clearly established and should be delineated as soon as possible. While the arena itself may be two
or more years from operation, impacts related to its construction could begin as early as this year (by ArenaCo’s timeline). There are certainly ways to address these issues, but the exact nature – and costs – of these tactics should be clear and accounted for in the interest of all parties. The City should be moving on these solutions now, before the negative impacts are a damaging reality and precipitate negative outcomes and spillover effects that may generate more areas of concern.

Identification of the most essential short-term transit challenges should be a top priority of the City as it coordinates with ArenaCo and the Port on any SoDo development. Quick alleviation of these issues will help address the Port’s top point of resistance, while ensuring stronger functionality for ArenaCo and event attendees.

**Aggressive Public Transport Advertising**

In addition to mitigation efforts, the City should work in conjunction with ArenaCo to develop an aggressive public marketing plan encouraging people to use public transit to attend events. Public transportation is a tremendous option for many people to commute to the stadium or to park and ride from regional rail stations, which host 35,000 parking spaces connected by bus and rail links. While increased use of public transportation would cut into parking receipts (which benefit both ArenaCo and the City), the overall economic impact would still be positive relative to large-scale infrastructure upgrades to accommodate a major automobile influx. These upgrades could surely run into the hundreds of millions of dollars given the proximity of two major interstates and various rail lines. Losing some parking dollars is a relatively small price to pay.

ArenaCo predicts that more than 60% of arena attendees may come from outside of the city, so it will be important to reach these individuals through aggressive campaigning – both onsite at the arena and on public trains and buses – to help lessen overall car traffic for arena events.

**Positive Economic Impacts**

Even Port officials acknowledge the ArenaCo proposal has raised the profile of SoDo’s infrastructure needs with City and State officials. Simply raising their profile is a small positive externality, but nonetheless, a benefit the City and Port have already realized. Examining these issues for the sake of assessing the Port’s competitiveness is a real benefit the proposal has already induced.
More importantly, as discussed, the Port faces many challenges to its long-term growth and business model from competitive and economic challenges largely beyond its control. Redevelopment of some land in SoDo currently committed to industrial uses may actually moderate some of the broader economic impacts of any decline in Port activity. While these are not yet realized declines, considering the economic future of the SoDo district and preparing for the challenges facing the Port of Seattle are a real benefit City leaders can help realize through the ArenaCo development.

Whether these benefits are to be promoted or acknowledged will depend upon the City leadership. But recognizing long-term changes in the Port’s business prospects and proactively working to generate diverse economic activity in SoDo could ultimately look particularly valuable to the district and prescient by City leaders.

**Seattle Center and KeyArena**

Originally built as the site of the 1962 World’s Fair, the Seattle Center is a 74-acre public facility targeted as the “cultural and community heart of the city.”\(^5\) In addition to being site of the world famous – privately operated – Space Needle, the facility hosts 30 resident arts and culture organizations, a 300 student high school, and 16,000 jobs. The facility conducted nearly $1 billion in annual business during the height of the Sonics’ residence at KeyArena.\(^5\)

KeyArena itself is a full-scale sports and entertainment arena that hosted 101 events in 2012, making just over $637,000.\(^5\) It was the former home of the Seattle SuperSonics from 1967-2008 (with limited exception for renovations). As part of the Memorandum of Understanding with the City, the facility will host the SuperSonics during the construction of ArenaCo’s new stadium for a period of at least 2 years, with financial input from ArenaCo as noted previously in this report. It is currently home to the WNBA Seattle Storm, Seattle University basketball, Rat City Rollergirls, and various other events annually.\(^6\)

Seattle Center receives approximately $12 million in financial backing from the City of Seattle each year.\(^6\) Its long-term goals and viability are intimately linked with the development of the new arena and with the fate of KeyArena. As such, City leaders are well aware that assessing the future of both facilities will be a key part of the City’s mission as the new arena comes online.
Long Term Viability

As Councilmen Burgess noted, regardless of the new arena’s construction, the future of Seattle Center is an ongoing challenge for Seattle. While many of the facilities have undergone recent upgrades, much of the Center, including Memorial Field and KeyArena, still poses major challenges to profitability, which will be further squeezed by the presence of a new state-of-the-art sports and entertainment facility in SoDo. For the purposes of this report, the focus will be upon KeyArena and its long-term outlook.

One solution that many cities have pursued following the construction of a replacement facility is straightforward: knocking down the old one. For various reasons, the impression gathered throughout this research was that eliminating KeyArena will be very difficult, both due to political will and historical relevance to many of the city’s citizens. As such, the strategies herein proposed do not consider demolition a viable alternative for KeyArena. This does not imply that these strategies are inherently better than demolition, but instead offer potential alternatives if it remains operational.

The decision not to demolish and redevelop KeyArena is an immense challenge for the City. As Seattle Center Director Robert Nellams noted, even the Chihuly Garden and Glass exhibit generated major protests because it brought private money into the Seattle Center. Demolishing the facility and redeveloping it for private use will likely be politically impossible in the near term. Without refashioning the arena’s function and profit-model, it will be an inevitability in the long term.

Initially, this section of the report planned to provide a best practices section noting other cities of comparable size that operate two full-scale arenas. Kansas City was noted by many sources as a strong example of a city operating two functional arenas to potentially be mimicked by Seattle. However, in the course of researching the project, it came to light that Kansas City has plans to raze its older facility, Kemper Arena, and replace it with a world-
class agriculture and equestrian arena. Kemper Arena, opened in 1974, simply cannot compete with the more modern state-of-the-art Sprint Center and even the Kemper family has advocated its demolition.64

The $150,000 called for in the MOU should be used wisely, because it represents a no risk opportunity for the City to explore alternate uses for KeyArena. Alternate ideas are badly needed and difficult decisions – and likely more public investment – will be necessary to create a sustainable plan for KeyArena if it is to remain operational.

Paths Forward

First and foremost, the City should not make KeyArena a sidebar issue to the new development. Seattle Center’s leadership seems flexible to a new vision or mission for the facility itself or the Seattle Center as a whole. The City should not overlook the potential of these assets and the downside of ignoring the Key’s needs. While creating a bright new showpiece in SoDo is exciting, leaving an empty and blighted facility in its wake is an undesirable outcome for all involved.

In the short-term, the influx of business in the Lower Queen Anne neighborhood already has local businesses excited.65 The City must look at the two years that the Sonics occupy KeyArena as a chance to shine a spotlight on the long-term issues facing the facility and create a meaningful and productive public conversation about KeyArena and Seattle Center’s future.

The current process being undertaken by the Advisory Commission is an important first step in developing a comprehensive long-term plan for the Seattle Center.66 The results of this evaluation are not yet available for review in this report.
Reconfiguring KeyArena

If it is to remain in operation, KeyArena will have to change its form and function. The KeyArena leadership has developed many ideas and the City should focus attention on evaluating their viability and potential costs.

The most compelling option may be to reconfigure KeyArena into two facilities: a 2,000-2,500-seat amphitheater, and a 7,000-10,000-seat arena or exhibition space.

The smaller facility creates a particularly exciting possibility. Due to the ArenaCo development, the Showbox SoDo will be demolished and its approximately 250 events each year displaced. The Showbox is already operated by AEG, the same promoter that currently handles events at KeyArena. With these events dislocated, a comparable new venue as part of KeyArena would have an immediate revenue base and the city would not lose the events currently put on at the Showbox SoDo. This appears, on its face, a potential win-win approach to part of the Key’s needs.

The larger facility will provide more of a challenge. Many comparable-sized facilities exist in the Greater Seattle region and a 7,000-10,000-seat venue would enter a fiercely competitive regional market. A clear assessment of the viability and potential profitability would need to be conducted before this alternative is pursued, with specific attention to sustainability and necessary investment. Similarly, a large-scale exhibition space may be possible in this portion of the KeyArena’s footprint but comparable economic sustainability reviews will be necessary.

In his Open Letter to the City of Seattle, Chris Hansen acknowledged the need for such changes. He states, “If KeyArena can be successfully re-purposed to a smaller venue, we believe there is a good chance that, in addition to being a better asset for the City, it will be more economically viable as the operating cost reduction and incremental dates from smaller events would outweigh the lost of the few select large concert dates the KeyArena is currently able to attract.”

Given the need to reconstitute KeyArena, the above option presents one potential alternative that the Seattle Center leadership has developed. The City will have difficult decisions to make regarding the new form for KeyArena, but if it is to remain operational, further investment is likely and the City should be actively considering the deliberations of the Seattle Center Advisory Commission as it considers the bright future for SoDo.
Seattle Center’s Mission

Beyond KeyArena, the Seattle Center as a whole is in need of a major re-visioning and long-term use evaluation. The mission to be a cultural and arts center is noble, but two white elephants – Memorial Field and an unchanged KeyArena – will make it impossible for the facility to sustain itself financially. It will become a drag on City finances and a relic of its former glory.

Advocates for the facility are already promoting this strategy and the need for a complete re-evaluation of the facility’s long-term function. The investment by the Gates Foundation in their nearby world headquarters shows that Seattle’s leaders are optimistic for the neighborhood’s future.

A bold re-visioning of the facility, a targeted and clear mission for its future, and a viable plan that considers new uses for its assets – both public and private – must be considered. The infusion of private investment would be politically difficult but could add tremendous value. Other cities have sold naming rights and taken other creative approaches to partnering with the private sector on public parks and facilities. This is not pure advocacy for private investment, it is merely a call to consider alternate ideas of all shapes and forms to maintain the facility’s sustainability and ensure its vibrancy for the future. The Seattle Center Advisory Commission is surely assessing some of these options as it looks to revitalize the area for new generations of Seattleites.

The future of the Seattle Center and KeyArena is a major challenge, but not one to be overlooked. The outcome will play a major role in assessing the net benefit – that is benefits and losses – that the new ArenaCo development ultimately generates.

Substitution and Leakage

The ArenaCo facility and addition of the Sonics will absolutely bring new revenues to the city. People will come to SoDo to see the Sonics (and other events) from nearby cities and suburbs and away team fans will travel in some proportion as well. These people will spend money at local restaurants and bars, on parking and public transportation, and on team apparel and memorabilia. Depending on the size of the “economic circle” drawn around the facility, there is sure to be a positive economic impact on spending and the tax base in close proximity to the arena.

However, as previously noted, research on the overall scale of this contribution is mixed at best. There will unquestionably be substitution of other leisure spending and the benefit will not necessarily provide dollar for dollar returns for the overall public
bonding investment. While ArenaCo will cover any shortfalls on bond repayments, the City should acknowledge that some of the arena spending supporting that revenue is simply money being taken from other entertainment venues: Lower Queen Anne restaurants and bars, movie theaters, suburban eateries, and all scale of other entertainment and leisure facilities. The City’s financial commitment is not ultimately $200 million, but it should not be thought to be anywhere near zero either.

The following represent some experimental strategies the City may consider to alleviate some of this substitution effect and capture new revenues to improve the financial returns on their investment.

**Motivating Leisure Spending**

To counteract the substitution effect, the City will need to get very creative to induce new spending. Unless the leisure budgets of Seattleites spontaneously expand with the arrival of a new sports team, then the substitution effect is very real. With that said, the City may be able to encourage ArenaCo to soften some of these effects.

One area sure to be impacted by the development is the Lower Queen Anne neighborhood. Currently the hub of pregame and event activity for KeyArena, local bars and restaurants are sure to lose foot traffic and business as these events shift to SoDo. While invigorating SoDo is an exciting opportunity, doing it at the expense of Lower Queen Anne would be a net zero outcome for Seattle leaders.

Chris Hansen and ArenaCo have discussed various ideas, including the potential to have a carnival-like atmosphere before events on proximate open space and potentially a food truck corridor. This may provide an opportunity to involve Queen Anne establishments in this new windfall. If Queen Anne restaurant proprietors have the potential to create mobile facsimiles, perhaps they could be given priority in participating in the new arena area festivities. Obviously not every business could receive this benefit, but it may be a boon for the limited number of entrepreneurs that are able to take part, predicated on their presence adding to the overall direction and quality expectations of the ArenaCo team.

By involving the Lower Queen Anne proprietors, the ArenaCo group and City leaders can be seen to acknowledge the concerns of a key constituency in the new arena development and take a realistic and proactive stance on mitigating negative economic impacts.

An effect that the City should be sure to promote widely is the positive overall impact that the team’s presence will have throughout the season in driving traffic to sports bars and other venues throughout the city. An important step will be to quantify this effect:
during the season’s first few months – when admittedly the effect may be magnified – survey business owners to determine if traffic spikes during nights that would previously be quiet thanks to televised Sonics games (Sunday-Thursday). If the effect is positive, this is a real economic benefit the City can quantify and promote in its justification of funding the arena.

Ultimately, substitution spending is the great bane of stadium economics. If the City can take proactive and creative approaches to motivate spending or develop creative partnerships amongst “winning” and “losing” neighborhoods, the stadium’s overall benefit is sure to be of greater value to the city as a whole.

**Capturing New Revenues**

Many academics note that the greatest economic impact of adding a new team or sports facility is the addition of the team’s employees: Seattle will be home to more than a dozen new high-earning individuals (many of them multi-millionaires) as a result of the Sonics arrival. Even more if an NHL team also follows in the future.

Unfortunately for Seattle and the state, there is no income tax collected by either entity so this impact is muted. However, if the City can be creative and cooperative with the team, it may be able to present a more accommodating and simplified way for players to purchase property and commit to other spending in the city, from which associated taxes will flow into City, County, and State coffers.

This is not to suggest the City can mandate or should advocate too strongly for this strategy. The players and other employees are private citizens who can spend their money how, when, and where they want. However, the capture of employee dollars is an important driver of public financial benefit from the new arena, which is a public investment.

Potential ideas to consider include efforts like providing VIP tours to team players of various neighborhoods. The City may also facilitate access to realtors, car dealerships, local country clubs, or other opportunities that may appeal to their needs. The more welcoming the City can be to the team and its players, the more information they have about the many benefits of putting down long-term roots in Seattle – through property purchases and other activities – the greater the economic impact will be. Seattle is a world-class place to be a young, wealthy athlete with diverse interests or to set down roots with a family. The City shouldn’t hesitate to consider resourceful ways to market those assets to a new influx of high-earning individuals that can enjoy Seattle while contributing to the local tax base.
Economic Development and Planning

As discussed, SoDo is challenged by zoning restrictions and unrealized potential. In discussions with various city officials, several mentioned that the inability to use previous stadium investments to generate associated development has been a failure by the City. Given that the new multi-sport arena fills the final footprint large enough for major development in the Stadium Overlay Area, this project may represent the final chance to create a coherent vision for the SoDo district’s economic and development future.

In order to address this problem, several factors must be considered. The previously proposed SoDo 2020 Commission (see: Port of Seattle, Paths Forward) would have a major role in this process or the City can take the initiative to direct the process in another manner. Regardless of its format, addressing these issues is essential to realizing the full value of ArenaCo’s development.

Port Overlay Area

One alternative mentioned by Councilman Burgess is the proposal of a Port Overlay Area to augment the zoning structure in SoDo and the current Stadium Overlay Area. The concept is simple enough, but its execution will obviously be more of a challenge. As Mike Merritt of the Port of Seattle noted, “The proof [of a Port Overlay Area] is in the pudding.” The Port Overlay Area would clearly delineate – create a hard line – around areas designated for Port and industrial use as part of a long-term vision for SoDo. Whereas current development plans show writing on the wall that Port and industrial lands could be slowly eroded by zoning changes, this would be a holistic approach. Piecemeal development plans and zoning changes
would surely be detrimental to both Port sustainability and developers’ aspirations. A clear Port Overlay Area, which meets the needs of the Port and the desires of the City and developers would be a better outcome for all involved.

At the request of City leaders, this report makes no attempt to propose any specific zoning changes given the complex nature of future zoning needs.

**Stadium District Plan**

Released in December 2012, the Stadium District Concept Plan developed by the Washington State Major League Baseball Stadium Public Facilities District and the Washington State Public Stadium Authority provides many ideas for how the city could approach the redevelopment of SoDo. The report notes that while the two existing SoDo stadiums generate more traffic and sports spending than comparable districts, “food and beverage visits are 1/3 to ½ less with respect to establishments, visits and sales.” Clearly, there is work to be done in order to fully activate the Stadium Overlay Area and SoDo.

Without specific dissection of their entire plan or credence to specific development elements, the nature of their suggestions are among those that the City might consider as it approaches rezoning or redevelopment of SoDo. Their plans represent a drastic departure from current zoning capabilities, but their commitment to transportation upgrades, public space preservation, and high-value commercial development should be part of the larger discussion of how to redevelop SoDo.

This is not to put the organization at the table for discussions; those assignments are out of this report’s realm. However, it is worth noting that the drastic and creative strategies proposed in the Stadium District Concept Plan are the types of ideas that City leaders should expect and evaluate from Commission participants. Historically, such bold and creative plans have provided the best outcomes for stadium developments, as in the following example.

**Case Study: San Diego’s East Village**

Several officials noted San Diego’s East Village, which was revitalized in conjunction with the development of the San Diego Padres’ Petco Park, as a potential model for the development of SoDo. San Diego’s experience may offer some lessons, but aspects of the plan will be difficult to imitate without resourceful negotiations.
The City of San Diego was approached by the Padres in 1997, with the desire to build a new stadium for their team. The City was wary of making major public investment in a private sports venue, but saw the opportunity to use the investment as a chance to revitalize the long blighted East Village neighborhood.

City officials set three major requirements to provide public funding: locating the new facility in the East Village, confirmation of associated development to repay public investment through new tax revenues, and the development of a new hotel near the city’s Convention Center.24

After a lengthy negotiation, the City agreed to pay $186.5 million towards stadium construction and $88.5 million for land acquisition through the City’s Redevelopment Agency. The stadium was slated to cost $411 million and the City committed to 72% of the total cost.25

The proposal was put before San Diego voters and was approved with 59.6% of the vote. Paramount to public support of the proposal was the creation of a Ballpark District and the requirement that private investment be secured to generate tax revenues on new development. Without the private development dollars secured, the public investment could not be accessed by the team.

One decade after the MOU was approved, more than 3,000 market-rate residential and 594 price restricted units had been built in the East Village. Almost $1.3 billion of commercial space – 550,000 square feet – has also been developed, almost four times the amount promised to the City in the initial agreement.26 For San Diego, the project has been a significant success for the East Village, though critics still argue City leaders simply shifted development dollars from other parts of the city to the Ballpark District. Nevertheless,
development numbers far exceeded expectations and while the Padres fortunes have not turned, the development surrounding their stadium certainly has.

The major crux of the Petco Park plan and associated development is what Mark Rosentraub calls “shared risk”. The City of San Diego’s development deal had specific provisions related to development of a new hotel and private real estate. In order to access public funds, the Padres’ ownership team needed to first secure certain levels of private investment from outside developers. In the case of the ArenaCo development, financing terms are already in place and the MOU is signed. The cards have been played, so to speak.

With that said, the SoDo 2020 Commission could provide an interesting leverage point for the City of Seattle. The City could use the creation of a commission as an opportunity to encourage developers and other commission members to rally private support for redevelopment plans. For instance, if a new zoning structure can be agreed upon with Port officials, it could then be agreed that it would only go into effect upon securing a designated amount of private investment dollars for new development and/or infrastructure financing. Such an agreement might help mobilize private investment dollars, without the City overcommitting itself to major zoning overhauls without the guarantee of tangible returns.

The risk sharing strategy employed by San Diego is a strong model to ensure real results from public risk taking. If deployed properly, it could have extremely valuable impacts on the desires of key SoDo stakeholders – the Port and resident sports teams – as well as aspirational developers who have long hoped to animate the area with new investment.
Summary of Recommendations and Next Steps

The following summarizes many of the most pertinent recommendations provided in this report, as well as potential next steps in their pursuit or implementation. They are ordered by priority level, which is determined by relative importance to the other recommendations provided. The page numbers noted point to the specific parts of the report where they are elaborated.

Included below is each of the recommendations along with relevant Stakeholders (S), Barriers to implementation (B), and Tactics to overcome those barriers (T).

High Priority

**Extended Franchise Involvement with Community Organizations**

Goal: Multiplier effect on local charitable efforts; positive reputational gains for ArenaCo

Time Frame: Immediate

Political Feasibility: Easy

(see pages 17-21)
Creation of SoDo 2020 Commission

Goal: Develop sustainable and inclusive plan for long-term development of SoDo

Time Frame: 6-12 months

Political Feasibility: Difficult

(see pages 22, 26-28)

Addressing Immediate Infrastructure Needs

Goal: Mitigate negative impacts of new traffic; prevent bad PR surrounding arena opening

Time Frame: Immediate

Political Feasibility: Difficult

(see pages 24-26, 28-29)
Re-visioning for KeyArena and Seattle Center

Goal: Develop long-term plan for facility’s mission and needed upgrades
Time Frame: 12-24 months
Political Feasibility: Difficult
(see pages 30-34)

Arena as Icon and Green Development Model

Goal: Create recognizable new asset for community
Time Frame: Immediate
Political Feasibility: Medium
(see pages 22-23)
Medium Priority

Partnerships for Seattle Center Development

Goal: Solicit private or other public investors for needed upgrades

Time Frame: 12-24 months

Political Feasibility: Medium

(see page 34)

Opportunities for Queen Anne Businesses in Context of New Arena

Goal: Moderate negative impacts of business transfers to SoDo

Time Frame: 12-24 months

Political Feasibility: Medium

(see pages 35-36)
## Employment Partnerships with ArenaCo

**Goal:** Engage broader base of community with new employment opportunities  
**Time Frame:** Immediate  
**Political Feasibility:** Medium  
(see pages 19-20)

### S
- ArenaCo  
- Labor unions  
- Non-profit partners (e.g. Juma Ventures)

### B
- Worker union contracts  
- Choosing appropriate non-profit partner

### T
- Assess all employment opportunities in and outside of stadium, as well as with associated vendors  
- Solicit non-profit partner through RFP, if necessary

## Recreation Field Development

**Goal:** Create more public assets for use by Seattle’s citizens, particularly youths  
**Time Frame:** 12-24 months  
**Political Feasibility:** Easy  
(see page 18)

### S
- ArenaCo  
- Developers  
- Non-profit organizations  
- Neighborhood boards  
- City of Seattle  
- King County

### B
- Costs of development of fields, including land costs  
- Opportunity cost of other potential development alternatives

### T
- Advocacy efforts to promote public value and positive impacts  
- Potential tax breaks for land purchases devoted to public use
Low Priority

Spending Study Related to Substitution and New Revenue Effects

Goal: Determine net economic impacts of team and arena presence on local businesses

Time Frame: 6-12 months

Political Feasibility: Easy

(see pages 35-36, 47-48)

Motivating Local Spending

Goal: Capture higher percentage of new revenues related to teams and arena

Time Frame: 6-12 months

Political Feasibility: Medium

(see page 36)
Further Areas for Research

There are many other facets of the ArenaCo development which represent unique challenges and opportunities for the City, as well as potential costs that should be considered part of its overall price tag. This section gives a brief summary of some additional research that the City may consider pursuing to various ends.

Retrospective Public Survey on Stadium Opinions

Previous attempts to build stadiums with public money in Seattle have been acrimonious. The ArenaCo deal was no exception. But conversations with several city leaders, public and private, suggest that citizens are generally supportive of the facilities once they are built and become a vibrant part of the Seattle community.

As a potential public relations asset, the City should consider conducting public polling asking citizens about their opinions on existing facilities (SafeCo Field and CenturyLink Field) and how they add to Seattle. If the results are positive, as many officials suggest they would be, it could be a strong marketing tool for the City as it promotes its role in the ArenaCo plan.

A sample questionnaire is included in the Appendix of this report.

Priority: High

Potential Costs: Staff time for development and analysis, hard copy surveys, mailing, or online survey software

Impact on Other Entertainment Spending

Again, one of the main deficiencies in stadium economics is the prevalence of the substitution effect in curtailing the benefit of “new” spending at arenas and stadiums. While the arena will undoubtedly draw many people, unless Seattleites’ leisure and entertainment budgets expand drastically, other leisure and entertainment venues are bound to suffer, either in the city or regionally.
The City should consider developing a way to assess the impact on outside businesses, including restaurants, bars, and other entertainment and leisure venues, as a result of the new arena development. If particular “losers” are identified, the City may be able to mollify some of these effects through creative marketing or other activities. The goal is to acknowledge these transfers before they happen to see if anything can be done to mitigate the pain to adversely affected businesses, as opposed to ignoring economic reality.

The City may also wish to attempt to quantify positive impacts on restaurants and bars that feature Sonics’ away games. Identifying several sports bars and recording their current traffic and revenues on off-nights (Sunday-Thursday) before the team’s arrival, and comparing it with equivalent data next fall/winter when the team returns can quantify positive economic impacts of the team’s return.

**Priority:** High

**Potential Costs:** Staff time for data gathering and study development

**Worst Case Scenarios for Infrastructure Impacts**

The MOU signed in October 2012 represents one of the more creative and “safe” financing partnerships that a city has negotiated for a new arena, and City and County leaders and ArenaCo deserve credit for that. However, potential implications for SoDo’s infrastructure are a very real cost that is not fully enumerated in the deal. While the $40 million infrastructure fund is helpful, it is not likely to fully fund major overhauls that may be necessary to maintain the Port’s needs, protect the safety of arena patrons, and address changes in traffic patterns related to new events.

The City should conduct a full assessment of all potential infrastructure implications, as well as worst case scenario financial implications of having to upgrade these assets. Any changes to infrastructure precipitated by the ArenaCo development are a real cost of approving the project, and the City should be honest in its assessment now. While many officials have suggested there are few needs because of the timing of traffic patterns, being honest about this potential and associated costs could have very important short and long-term implications for City officials politically and for the City financially.

**Priority:** High

**Potential Costs:** Staff time for analysis and for lobbying or public relations outreach, pending results
Public Safety Costs

The addition of hundreds of new mega events each year in SoDo will generate additional needs for public safety resources to be deployed to keep the area safe for fans. ArenaCo should be responsible for most of these costs as part of their operational contract for the events. But spillover effects of these events onto traffic patterns, pedestrian crossings, and light rail and transit carriers may have added costs that have not been considered.

The City should develop a clear operational plan for events at the new arena, noting needed public safety resources including any that may not be the responsibility of ArenaCo. Again, these are real public costs of the facility that may not yet be properly accounted for. City leaders are wise to address all associated costs with as much precision and clarity as possible for future budgeting purposes and to understand the real fiscal impacts of the development.

**Priority:** Medium

**Potential Costs:** Staff time for plan development and cost analysis

Value in Emergency and Contingency Planning

Seattle’s geological underbelly has made emergency planning a cottage industry for the city’s contingency planners. As we saw during Hurricane Katrina, sports stadiums can play a key role in disaster planning and community support in times of crisis. The City should explore with ArenaCo the potential to incorporate the new facility into emergency plans for major disasters or other events that may necessitate shelter facilities.

This is a low impact and low priority issue; however, it may present one additional public benefit that the City can note in its support of the facility and overall value as a public asset.

**Priority:** Low

**Potential Costs:** Staff time for analysis
Impact of Global Warming Scenarios on Arena Site

The City should consider an honest assessment of the facility’s location under worst-case climate scenarios. Many projections do not call for much impact to the SoDo area in the near term. However, this is just one more area that the City should be cognizant of given the major long-term investment and desired lifespan of the new facility.

This is a very low priority assessment, which does not immediately demand resources, but should be a potential point of consideration based on evolving conditions.

**Priority:** Low

**Potential Costs:** Staff time to evaluate available resources
Conclusion

This is an exciting moment for the City and people of Seattle. Welcoming back the Sonics is an enormous morale boost to many faithful fans and their return is sure to create an even more active community for Seattle’s sports enthusiasts. The new arena will draw in people from outside of the city to enjoy the new facility and spend money experiencing everything Seattle has to offer. The speed at which the plan has proceeded shows the enthusiasm that Chris Hansen, ArenaCo, and the City and County leadership have for the project.

In tandem with their eagerness, City leaders must not lose sight of their responsibility to maximize the arena’s development for every penny of public subsidy that supports it. The new team, the added investment, and the foot traffic are an excellent start, but the project has the potential to do even more and to be a model for how cities approach and assess the value of arena development and sports teams.

Many of the ideas presented in this report require further discussion, and many are sure to generate contentious rebuttals. But political will and clear vision can add such tremendous value to the arena that they warrant debate and evaluation along with more questions that are sure to arise as the development moves forward.

Seattle and sports fans everywhere will gain from the investment of ArenaCo and the return of a proud NBA franchise. The extent of this gain will ultimately be determined by the boldness of the ideas that accompany the arena development and the ability of the City to pursue a holistic benefit scheme for all of Seattle surrounding its creation.
Appendix

Stadium Opinion Questionnaire

This questionnaire is open for alteration but may provide some direction regarding potential questions for a public survey regarding impressions of Seattle’s current sports facilities.

Demographic information

Gender
Male
Female

Age
Under 18
18-29
30-49
50-64
65+

Where do you live?
(This may be pertinent by neighborhood, but I will defer on creating a comprehensive list of potential neighborhoods for inclusion)

How did you vote in the referendum regarding funding the Mariners stadium (now SafeCo Field) in 1995?

Yes
No
Did Not Vote
How did you vote in the referendum regarding funding the Seahawks stadium (now CenturyLink Field) in 1997?

Yes
No
Did Not Vote

If the issue of funding the Mariners stadium was voted on again today, would you vote the same way you noted above?

Yes
No, I would change my vote

If the issue of funding the Seahawks stadium was voted on again today, would you vote the same way you noted above?

Yes
No, I would change my vote

How many Mariners games have you attended at SafeCo Field since it opened?

More than 10
3-10
One or two ever
I have never attended a Mariners game at SafeCo Field

How many Seahawks games have you attended at CenturyLink Field since it opened?

More than 10
3-10
One or two ever
I have never attended a Seahawks game at CenturyLink Field
How many Sounders games have you attended at CenturyLink Field since it opened?

More than 10
3-10
One or two ever
I have never attended a Sounders game at CenturyLink Field

In your opinion, what has been the effect of the addition of SafeCo Field on the overall cultural environment in Seattle?

(1 to 5 scale, 1 being “it has had a strong negative effect,” 3 being “no effect at all” and 5 being “it has had a strong positive effect”)

In your opinion, what has been the effect of the addition of CenturyLink Field on the overall cultural environment in Seattle?

(1 to 5 scale, 1 being “it has had a strong negative effect,” 3 being “no effect at all” and 5 being “it has had a strong positive effect”)

Open Ended Question

(This could take many forms but may provide an opportunity for more in-depth qualitative feedback to evaluate or, in positive instances, publicize)
References and Interviewees

References

Articles, Books, and Web Pages


Nickels, Gregory. “Mayor Nickels Announces Local Effort to Buy Sonics, Renovate KeyArena”. City of Seattle, News Advisory. 6 March 2008.


Additional Background Documents


Horton Street, LLC. “Seattle Arena Multimodal Transportation Access and Parking Study”.

Memorandum of Understanding, City of Seattle, King County, Washington (October 15, 2012)

Open Letter from Chris Hansen to the Community, June 22, 2012

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Websites

http://www.portseattle.org
http://www.keyarena.com
http://nosonicsarena.com
http://www.seattlecenter.com
http://www.sonicsarena.com
Images


Page 22, Potential Arena Site, personal photo


Page 25, Intersection near South Holgate Street and 3rd Avenue, Seattle, WA, Google Maps

Page 31, KeyArena, personal photo

Page 32, Seattle Center Map, courtesy of Seattle Center

Page 37, SoDo and Stadium Overlay Area, Seattle City Council Legislative Department Memorandum, “July 18, 2012 GPF Meeting: Zoning and Permitting for proposed Arena”, July 16, 2012

Interviewees

Interviewees are noted with their professional affiliation and job title. Sources that asked to remain anonymous are noted simply as “Anonymous interview source.”

- Anonymous interview source
  - Personal, January 16, 2013
- Charles Knutson, Senior Vice President, Greater Seattle Chamber of Commerce
  - Personal, January 18, 2013
- Dave Gering, Executive Director, Manufacturing and Industrial Council
  - Phone, March 8, 2013
- Ethan Raup, Director of Policy and Operations, City of Seattle
  - Phone, October 26, 2012
- Hall Walker, Deputy Budget Director, City of Seattle
  - Phone, November 15, 2012
- Josh Feit, Founder/Editor, PubliCola
  - Phone, February 19, 2013
- Marco Lowe, Director of Intergovernmental Relations, City of Seattle
  - Various including phone, October 3, 2012, and personal, January 15, 2013
- Mark Ellerbrook, Home Ownership Program Manager, City of Seattle
  - Phone, February 8, 2013
- Mick McHugh, Owner, F.X. McRory’s Steak Chop & Oyster House
  - Personal, January 15, 2013
- Mike Merritt, Local Government Relations Manager, Port of Seattle
  - Personal, January 17, 2013
- Nathan Torgelson, Policy and Development Manager, City of Seattle Parks and Recreation
  - Phone, November 26, 2012
- Robert Nellams, Director, Seattle Center
  - Personal, January 17, 2013
  o Personal, October 9, 2012 and January 28, 2013
Tim Burgess, City Council member, City of Seattle
  o Personal, January 16, 2013
End Notes

1 Interview with Ethan Raup
2 Beck, Howard and Ken Belson
3 Interview with Marco Lowe
4 Wikipedia, Kingdome
5 Sonicsgate
6 Wikipedia, KeyArena
7 Sonicsgate
8 Wikipedia, Seattle SuperSonics
9 Allen, Percy
10 Sonicsgate
11 Nickels, Gregory
12 Sonicsgate
13 Interview with Ethan Raup
14 Eaton, Nick
15 All following points from MOU
16 Web Desk
17 Miletich, Steve
18 Seattle City Ordinance Number 122357
19 Siegfried, John and Andrew Zimbalist
20 Coates, Dennis and Brad. R. Humphreys
21 Johnson, Bruce K., Peter Groothius and John C. Whitehead
22 Siegfried, John and Andrew Zimbalist
23 Propheter, Geoffrey
24 Chema, Thomas V.
25 Siegfried, John and Andrew Zimbalist
26 Siegfried, John and Andrew Zimbalist
27 Borchers, Callum
28 Interview with anonymous source
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Up2Us
Interview with Tim Burgess
Interview with Mike Merritt
Rosentraub, Mark
Kimmelman, Michael
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Farley, Glenn
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Lapidos, Juliet
Clarridge, Christine
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Horton Street, LLC
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Interview with Mike Merritt
Seattle Center website
Interview with Robert Nellams