

WASHINGTON STATE MAJOR LEAGUE BASEBALL STADIUM PUBLIC FACILITIES DISTRICT
Wednesday May 23, 2018 2:30 P.M.
Public Facilities District Conference Room, 110 Edgar Martinez Drive S. and
SAFECO FIELD, Interview Room, 1250 First Avenue S., Seattle, Washington

SPECIAL BOARD MEETING MINUTES

CALL TO ORDER

Board Chair Virginia Anderson called the meeting to order at 2:30 p.m. pursuant to notice. Board members present: Virginia Anderson, Dale Sperling, Jesus Sanchez, Paul Mar, Charley Royer, Stacy Graven and Craig Kinzer. Staff present: Kevin Callan (Executive Director), Tom Backer (Legal Counsel) and Jan Simons (Recording Clerk). Dan Barrett (CAA/ICON; Sports Consultant), Gerry Johnson (Pacifica Law Group; Outside Legal Counsel), Pat Dunn (Legislative), and Sandeep Kaushik (Sound View Strategies) also joined the meeting.

EXECUTIVE SESSION:

Virginia Anderson announced at 2:30 p.m. that the Board would meet in Executive Session “to consider the minimum price at which real estate will be offered for sale or lease when public knowledge of such consideration would cause a likelihood of decreased price,” RCW 42.30.110(c), to consider financial, commercial, or proprietary material under RCW 42.56.270, to discuss with legal counsel real estate lease matters and potential litigation involving identified legal risks from a proposed action or current practice, where public discussion of the legal risks is likely to result in adverse legal or financial consequences to the district, RCW 42.30.110(i), and to review the performance of public employees or contractors, RCW 42.30.110(g). Virginia reported that the Executive Session was expected to last about 25 minutes and that the regular Board meeting would follow the Executive Session, including Board action.

At 2:53 p.m. Virginia Anderson concluded the Executive Session and announced that the meeting of the Board of Directors would reconvene in the Interview Room.

At 3:02 pm Chair Virginia Anderson reconvened and continued the Board meeting in the Interview Room at Safeco Field.

ITEMS FROM THE AUDIENCE/PUBLIC COMMENTS: NONE

BOARD BRIEFINGS AND POTENTIAL ACTIONS

INTRODUCTION

Virginia Anderson welcomed everyone and began by saying that today is a great day for baseball in Seattle. She noted that the PFD board has spent a lot of time and effort working

very hard to get ourselves to where we are today, and we will run through a briefing of a lot of information that has been accumulated. As you know, we have been engaged in these lease discussions with the Seattle Mariners for more than 2 years. We have been working with the intention that Safeco Field, our ballpark in Seattle, remain an iconic ballpark for the next 100 years and that we are home to Major League Baseball for that entire time. That has been our guiding principle for everything that the Board has worked on, and today we will bring to you the history of the work that has been done and then the terms of the proposed lease that we have agreed upon with the Seattle Mariners.

Virginia also thanked all the people who have served on the PFD Board in the past. The entire public should be proud of the ballpark we have built; the fact that the bonds that financed the construction of Safeco Field were paid off 5 years in advance; and that 5 of the general-purpose taxes or fees enacted for that purpose have sunsetted. Virginia also feels that the physical condition of the ballpark and the public recognition the ballpark receives is another source of great pride. She recognized both as legacies to be carried forward. Virginia then asked Charley Royer to give some history of the involvement of the Board as they considered the terms of the new lease.

OVERVIEW OF LEASE RENEWAL PROCESS

Charley began by saying that the circumstances today couldn't be more different than what occurred 20 years ago. He feels that this lease negotiation process was a much more pleasant experience than what he had anticipated when going into the negotiations. If history is teaching us anything, it tells us that the previous lease negotiation was pretty tough. There had been controversy, people who voted for the stadium and people who voted against it. The state legislature and forces outside the City were writing a lot of our destiny back then.

Charley continued by saying this team, the Mariners and their ownership, have done an incredible job of keeping the ballpark up. It is one of the best ballparks in the country. We know that because we go and look at other around the country and compared ours very objectively with others. A number of the other ballparks throughout the County are looking worn-out and are being replaced. We also look at the relationship in terms of the organizations that are managing these ballparks, and the communications between the public owners and the team tenants. For a lot of public-owned stadiums, the relations with the team are not good.

As we began this lease process, we worked to develop a reinvigorated Board. The old Board was a little beat-up when it came out of negotiations and they needed new people to go forward. We brought in Jesus Sanchez, Stacy Graven and Virginia Anderson, all of whom have managed large public facilities. Dale Sperling has been on the Board for the past 14 years and brings a long history of property management and development. Paul Mar has the technical expertise we need for complex issues. Craig Kinzer is a real estate guy who talks to us about what to expect from the real estate environment.

Charley also stressed that it was important to know what to expect from a 20-year-old building and the cost moving forward to replace systems and maintain or upgrade systems. He explained that the PFD and the Mariners jointly funded a long-term capital study so that both the PFD and the Mariners would have a benchmark we could agree on as to what was needed. Paul Mar will talk more about that.

The #1 accomplishment of this negotiation was that the Mariners would continue to maintain and operate the stadium as a first-class facility. The #2 accomplishment (if all these studies help us to identify what to do) is a stadium that will last 100 years. And #3 is to make sure the stadium is snuggled up in the arms of a strong neighborhood that families want to visit, that people will come early and stay late, and they will experience the fan experience that is so important. So, the Board changed its mission statement and ultimately created a ballpark neighborhood improvement fund as part of the lease terms that will help the neighborhood be active and attractive. The new lease terms accomplish all of these things.

REVIEW OF LONG-TERM CAPITAL NEEDS

Next, Paul Mar addressed the long-term capital needs assessment. Paul said that early on into the negotiations they had determined that a key to having a successful negotiation for the lease renewal was to understand what lies ahead in terms of capital expenditures. So, the Mariners and the PFD jointly agreed to work on this together and they contracted with B&D Venues who started this study in late 2015 and completed it in 2016. The results were updated in 2018 and jointly approved and accepted by both the Mariners and the PFD.

B&D Venues used information from the ballpark from 1998-2015 to establish a baseline and then determined that the estimated costs to maintain Safeco Field in a first-class manner over the next 20 years would be \$300 million. At the PFD's request in 2018, B&D Venues extended their study an additional 5 years and determined that the estimated cost over 25 years would be \$385 million. These numbers include an annual 3% escalation and 15% contingency. The consultants also provided concepts in terms of potential upgrade improvements within the ballpark that would enhance the fan experience. They did not provide costs for the upgrades, but the Mariners estimated the upgrades could cost an additional \$160 million.

PFD MISSION STATEMENT AND SUMMARY OF PFD GOALS & OBJECTIVES

Next, Virginia Anderson explained the PFD's mission statement and its goals and objectives for the lease renewal. Virginia said that the original mission statement of the PFD was focused on building the ballpark, but that is not the mission of the PFD as we go forward. We have a great building thanks to our predecessors and the mission now is to maintain and enhance this iconic ballpark and to enhance fan enjoyment and to contribute to an economically successful, safe, desirable and walkable stadium neighborhood.

It was also important to the Board that the building continue to be a publicly owned facility of the PFD. We wanted to continue the relationship whereby the Mariners operate and maintain

Safeco Field at their expense, and that they plan all that work pursuant to an annual operation and maintenance plan. We also wanted a way in which the public participates in the success of the team. Virginia said the PFD's goal remains to have a ballpark with a 100-year successful life. It may seem idealistic and not achievable in this age of throw-away buildings, but both the Mariners and PFD believe this is obtainable and both are committed to doing that.

Virginia also stated that they look forward to a couple of changes in the new lease. The PFD had hoped for a 30-year lease, but they have negotiated a 25-year lease with two options to extend three years. It was also important that the Board expand the public benefits beyond the walls of the stadium through a neighborhood improvement fund and strengthen the non-relocation agreement and add incentives to make sure the team stays in this city.

HIGHLIGHTS OF LEASE RENEWAL TERM SHEET

Dan Barret from CAA/ICON was introduced to review some of the highlights of the term sheet. Dan explained that he was brought in to help the Board understand the current environment of Major League Baseball stadiums and stadium developments, operations and renewals.

Dan noted that early-on the Board put together a team to lead the negotiations, which included Dan, Kevin Callan, the Executive Director of the PFD, Tom Backer, legal counsel for the PFD, Husch Blackwell, a national law firm with extensive sports industry experience, and Pacific Law Group, which provided the local knowledge and history with the existing lease.

Dan then reviewed some the key terms of the new lease beginning with the length and potential extensions. Dan noted that the rent has increased to \$1.5 million a year plus a CPI escalator. The terms also include a revenue-sharing provision, the proceeds from which will be used for capital expenditures at the ballpark.

Dan described changes to the Applicable Standard, which compares the operation, maintenance, capital improvements, and upgrades to Safeco Field against other ballparks. In the current agreement, a first-class standard is established, but it benchmarks Safeco Field against ballparks constructed between 1990-1999. Several of these ballparks have already been replaced or will be replaced and a couple are not in good condition and require major renovations. So, the Board thought it important to modify the Applicable Standard in the new lease. Under the new lease, the Applicable Standard will measure Safeco Field against the top 1/3 of Major League Ballparks with some provisions that take into consideration age and normal wear and tear.

The Board also wanted a more formalized process for approving operations and maintenance plans as well as ongoing plans for capital maintenance, repair, and upgrades. In addition to the 1-year operation and maintenance report, which the Mariners submit to the PFD for review, there will be a 10-year rolling capital expenditure plan subject to the Applicable Standard. The PFD will now consider and approve all of these plans.

Dan also explained that the Mariners will continue to perform and be responsible for the costs of all operation and maintenance including capital maintenance, repairs, improvements and upgrades regardless of funds available. Also, the PFD will have a security interest in the Capital Expenditure Fund, meaning if the Mariners do not perform, the PFD will have the right to perform those obligations with those funds.

The Board wanted to make sure there was a funding source in addition to rent, admission tax and parking tax to fund on-going capital obligations, so the Mariners will contribute \$3.25 million per year to a capital expenditure fund for the first 5 years of the lease. That contribution amount will be adjusted going forward, depending on the projected revenues and expenses of the capital expenditure fund.

Dan noted that \$2 million will be set aside at the beginning of the new lease for the PFD Neighborhood Improvement Fund, and annual contributions will be made to the fund from rent at the Board's discretion. The Neighborhood Improvement Fund is intended to work consistent with the PFD's mission statement. The intent is to try to improve the fan experience, not only inside the ballpark but outside as well. The ballpark Neighborhood Improvement Fund projects will be at the sole discretion of the PFD, but they will seek input from the Mariners as well as others.

Dan then explained that the Board wanted a stronger, stand-alone, non-relocation agreement that provides more protection. The new agreement will include specific performance, injunctive relief, and liquidated damages. Dan also noted that there were new provisions encouraging continued local ownership, if the team is ever sold.

Dan thanked the Board for the opportunity to participate in developing the new lease terms, and he thanked the Mariners for their professionalism throughout the negotiating process.

PROPOSED RESOLUTION NO 18-004 AUTHORIZING EXECUTION OF TERM SHEET

Virginia Anderson then asked if someone would introduce the Board resolution authorizing execution of the term sheet for the long-term lease. She noted that the terms belie all the work that went into this process, and that these terms are not the final lease. Mr. Sanchez offered the resolution and Mr. Mar seconded. Virginia then asked for Board discussion.

Board member Craig Kinzer began by stating that he was probably the only dissenting opinion and he finds himself in a very uncomfortable place. Craig acknowledged his colleagues as brilliant, civic-minded people. Paul, who is a civic leader, Charley, a former Mayor of Seattle, Virginia, who ran the Seattle Center, Stacy, who runs Meydenbauer Center, Jesus, who ran the Kingdome and Dale, who is CEO of One Build. However, Craig does not feel the lease terms provide a full benefit to the public and he does not think they are in the best interest of the PFD.

Craig agrees with the first priority, which is to keep the ballpark a first-class facility, and he said the Mariners had done a great job at that. There is a second goal and that is for the Mariners to

win a World Series. And there is a third goal, which is public benefit and improving the fan experience, and this is where Craig feels the PFD dropped the ball. Craig was not happy with process and he would not have managed it like it was. But he acknowledges that it is not really about the process but where did we end up. He feels the PFD ended up with terms that he cannot support.

First the Capex fund, a fund set aside for the Mariners to meet their obligations. Craig points out that when they talk about money going into the Capex fund, that is money that is not coming to the public. We have always had a great relationship with the Mariners and the Capex fund has always worked, but we are going from a post-build environment to a long-term maintenance environment.

Craig continued by saying what gives him heart-burn is a profit-sharing formula in the original lease that was jerry-rigged so that there would be no profit paid to the PFD for 20 years. There was a credit given so that when we looked at the profits and see what we normally would have received it was wiped out by this credit, which were for loses from before the ballpark was built. Those credits are now used up, but there would have been \$1-3 million of purely discretionary money that the PFD could use for neighborhood improvements. Now we go with the revenue sharing formula and those funds no longer go the PFD as discretionary money, they will go into the Capex fund, which helps the Mariners meet their obligation. Craig added that the real reason he thought the Board went with the revenue sharing was because we were asked to remove audit rights. We had audit rights like any public entity would have for 20 years and now we are giving them up. It seems prudent to Craig as a public entity to have audit rights, but the Board has given those up as well as any discretionary funds that could have been used to create a wonderful neighborhood that Charley so-well articulated.

Craig also said the hotel/motel tax, which he thinks is a great idea, but he feels it is not enough and would like to see the whole amount go to the PFD. And Craig feels the downtown is going south and the PFD is in a unique position to partner with the Mariners to really make sure it's done right and with the public in mind and in a way that would deal with the arts, transportation, parks and safety. He said that the failure to do so was a big missed opportunity.

Virginia Anderson reminded the board and audience that this negotiation was not an easy process, and that these issues have been talked out at length during board meetings in which everyone contributed their expertise. She also reminded everyone that the purpose for which the PFD was set up is not to be a developer, but to maintain and enhance the ballpark, and our legal framework reflects that. She also noted that the profit-sharing provision in the current lease was changed to a percentage of ticket-sales, so we can actually measure it. Also, Virginia said that we, the PFD, are the owners of this building and the creation of this building has been a partnership with the PFD and the team since its inception and that's how it is structured going forward. Virginia thanked Craig for his comments and she assured everyone that these issues have been seriously debated and there are philosophical differences among Board members.

Next Dale Sperling began by saying that he is a fan of baseball, of the Mariners, management and ownership and Safeco Field. Dale attended the Pilots opening day in 1969, in 1977 opening day at the King Dome and opening day at Safeco Field in 1999. Dale has been on the Board for 14 years, has been Chair and is currently Vice-Chair, and has never regarded the Board's relationship with the Mariners as a typical landlord tenant relationship but as a partnership. The Mariners put the product on the field and we the PFD and the public make sure the ballpark is and stays one of the premier venues in baseball. This partnership is represented by a public investment of over \$300 million and a fan base that supports the team with nearly 2.5 million visitors every year for 40+ years. Dale feels the public has met its obligation to the partnership and continues to do so through fan support to the tune of \$80-100 million per year of admission revenue.

Since the beginning of this lease negotiation process, Dale has had 3 paramount objectives in mind. Number 1 is to ensure Safeco Field is well maintained, upgraded and remains one of the premier ballparks in baseball. Number 2 is to ensure there would be no need for future public tax support. Number 3 is to ensure this process does not in any way impede the Mariners from putting a quality winning product on the field.

During Dale's tenure on the Board, he along with other Board members have participated in three trips to research and compare the Mariners stewardship of Safeco Field with their peer group facilities. In every case, Safeco Field came out on top. A tip of the cap to the Mariners organization for doing this for 20 years.

Dale continued by saying that negotiations are not a science but an art and one almost never gets everything they want. There is always give and take and rarely does one issue overwhelm all the details. Dale is satisfied with nearly every detail of the terms of the lease, including the shift from profit-sharing to revenue-sharing that Craig mentioned, but he is deeply disappointed in the Mariner's demand for additional public support from the County for their obligations to maintain and upgrade the venue that the public has provided to them for nominal rent. It's ironic that the maintenance and upgrade that will be necessary over the next 25 years will only support and enhance the value of this magnificent franchise, yet they still want more public support. In Dale's mind, there is zero support for additional public subsidy for this private enterprise. Dale also said that there has been and continues to be differences of opinion on our Board who have worked hard to come to a satisfactory resolution of this matter.

Some have said that this issue of public support is not our decision to make. Perhaps not. Nevertheless, Dale said he can and will express his opinion. Dale also does not deny the ownership (nor envy) the profits they have achieved from their investment but to ask for additional public support at a time when there are so many other worthy needs evidences a tin ear to the needs of the community. Dale also said he wants the Mariners to win. He does not want to keep them from a championship season by diverging money from payroll to support ballpark maintenance and operations, however this is a team mired in mediocrity for 40 years.

Dale concluded by saying that given the obvious community needs we all see every day, he cannot in good conscience support additional public funding for the Mariners nor does he feel that the lease terms negotiated require that the Mariners receive public funds in order to maintain the high standards we all have for Safeco Field and for the Mariners to field a competitive team. Dale concluded by saying he remains a devoted fan and as they say at Safeco Field “Go Mariners”!

After these comments, Virginia Anderson said that the resolution before us is for approval of a term sheet, the terms of which have been presented and will be attached to the resolution. The terms do not make any decisions about the hotel/motel tax monies controlled by King County. What we are asked to vote on today are the terms that would take us forward into the negotiation of a long-term lease. The terms have been debated a long time and we now have a resolution before us.

Virginia then called for the vote. The resolution was approved with 5 yes and 2 no votes.

Virginia then said the next steps for the negotiation team is to continue to work on the definitive legal documents that will result in a new long-term lease.

ADJOURNMENT

Board Chair Virginia Anderson, there being no further business before the Board, declared the meeting adjourned at 4:00 p.m.

Jan Simons
Recording Clerk

Virginia Anderson, Board Chair
Board of Directors, Public Facilities District