



CITY OF KIRKLAND
City Manager's Office
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MEMORANDUM

To: Kurt Triplett, City Manager

From: James Lopez, Deputy City Manager for External Affairs

Date: May 2, 2024

Subject: Evaluation of Kraken Iceplex Proposal

RECOMMENDATION:

Staff recommends that the Council receives a briefing on the staff's initial evaluation of the Kraken's proposal to construct an Iceplex and City Community Center on the former Houghton Park and Ride site in Kirkland. The site is now owned by the City of Kirkland. Additionally, staff recommends the Council approves the fiscal note (Attachment A) included as part of the consent agenda of the Council meeting to allow further vetting of the proposal and potential community benefits.

BACKGROUND DISCUSSION:

In late 2023, representatives from the Seattle Kraken professional hockey team reached out to the City of Kirkland to explore a potential Iceplex facility in Kirkland. After some preliminary exchanges to understand what the Kraken was looking for, Kraken representatives sent a short formal proposal to the City Manager on Dec. 15, 2023. Staff informed the Kraken that the City could not consider the proposal until a final decision was reached by the Council on whether to place a ballot measure for a pool facility at the Park and Ride before the voters in 2024. City staff formally presented the Kraken's proposal to the City Council at the March 1, 2024, Council Retreat after the Council concluded not to proceed with the ballot measure. Council was interested in considering the proposal if sufficient public benefit could be identified and to help catalyze new housing and economic development in the nearby NE 85th Station Area. Following that presentation and direction from the Council to proceed with exploratory conversations with the Kraken, City staff have continued dialogue with the Kraken to understand the team's interests and how the project might benefit the Kirkland community.

Under the terms of the proposal, the facility would include a 15,000 square foot community center on the third floor that would be operated by the City. In addition, the City would take ownership of the entire facility after 35 or 40 years at no cost to the City. As such, this potential deal would significantly improve the City's long-term Capital Improvement Plan obligations. The Kraken's proposal is one of several potential uses of the former Houghton Park and Ride site that the City is currently evaluating for the site's long-term use. No decisions have been made about proceeding with the Kraken Iceplex project.

An interdisciplinary team is leading the continued evaluation of the Kraken's proposal. The team includes the representatives from the City Manager's Office, City Attorney's Office,

Finance and Administration, and Parks and Community Services. The City is keeping the community informed about major milestones related to this project on the City's website: <https://www.kirklandwa.gov/Government/Departments/Parks-and-Community-Services/Exploration-of-Seattle-Krakens-Iceplex-Proposal>.

1. Summary of the Kraken's Proposal

As outlined in the December 15, 2023, proposal to the City, the Kraken aspire to build and operate a structure consisting of a 75,000 square foot first floor (two regulation NHL size ice rinks) and a 15,000 square foot second floor for its hockey programming and viewing areas to the rinks (the "Iceplex"). As part of the Iceplex, the building will include ancillary support facilities including a ice plant, locker rooms, a skate shop, concession stand, lobby, fitness training facilities, offices and viewing areas to the rinks. The proposal also includes the creation of 22 on-site parking spaces in addition to those provided by the City, as well as a covered child drop off area for facilitated access to the building. Finally, the proposal contains the option for the City to pay for the construction of a 15,000 square foot third floor community center as part of the project. This would be significantly cheaper than if the City built a stand-alone community center of a similar size. A summary of the key elements associated with this offer are outlined below:

- 35-year lease with a 5-year option at \$1 per year.
- Waiver of development and permit fees and Kirkland's portion of the construction sales tax.
- Building set back variance to allow for a zero-lot line and the East and West sides of the property to all the rinks to fit.
- A request that Kirkland cooperate with Kraken efforts to serve as a conduit to borrow \$40 Million in short term (2yrs) construction loan financing with interest expense and loan guarantee paid by the Kraken and paid off 6 months after completion of construction.
- Kirkland will ensure that at least 210 parking spaces are available in the north parcel during the term of the lease and that a minimum of 160 are reserved for Kraken facility use.
- Kraken will retain the ability to sell naming rights to the facility for the lease term.
- Kraken will build a 15,000 square foot third floor community center. The Kraken estimate the cost to the city would be \$7.5 million dollars.

A review of the Kraken's initial revenue generation projections for the City is included as Attachment B.

2. Evaluation of the Suitability of the Houghton Park & Ride Site: Land Use and Zoning Summary

The threshold question governing feasibility of the Kraken proposal centers around the suitability of the Houghton Park and Ride site. As the Council is aware, the City's policies and

codes regulate allowed uses and intensities on any specific property by applying two distinct designations: a land use designation, and a zoning district. A land use designation is a policy-level designation, set forth on the City's official Land Use Map included in the Comprehensive Plan, and it reflects the predominant use appropriate for an area. A land use designation does not establish specific development standards for specific uses (e.g., maximum allowed height, bulk and mass limitations, parking standards). Those specific standards are established by the zoning district applied to a property. Zoning districts, and their respective development standards, are required to comply with the underlying land use designation, and it is typical that the City amends the land use designation of a property (or properties) before it amends the specific zoning district or development standards for the property (though these processes can be completed concurrently).

The subject property is located in the Bridle Trails Neighborhood. In December 2023, City Council adopted an amendment to the Comprehensive Plan Land Use Map that changed the land use designation of the Houghton Park & Ride property from Low Density Residential to Transit Oriented Development (TOD). This amendment was initiated by the City upon purchase of the property, in recognition that the highest and best use of the property in the future would be a higher intensity use that would provide benefit to the community. The amendment was supported by an existing adopted policy in the Bridle Trails Neighborhood Plan:

Policy BT-8: At the Houghton Park and Ride, encourage future transit-oriented development (TOD) that includes pedestrian connections within the site and to adjacent streets.

The TOD land use designation has been applied throughout the City in areas that have good access to (or have opportunity for) quality transit service, and the zoning districts associated with the TOD land use allow a wide range of uses such as residential, commercial, retail, recreational, and civic uses. At the time the land use designation was changed, Planning Commission and Council discussed that the future zoning for this site should allow for more dense development than the current zone and should also specifically allow for recreational facilities. The change in land use designation was not accompanied by related zoning code amendments to update development standards for the property, but developing such standards for the property is a task on the 2024-2026 Planning Work Program¹. While that project has not yet started, Planning staff has provided the following initial considerations for future development of the subject property:

¹ https://www.kirklandwa.gov/files/sharedassets/public/v/1/planning-amp-building/work-programs/adopted_2024-2026-planningworkprogramfeb20-2024.pdf

- The Houghton Park & Ride site is quite large relative to other vacant properties in the City, which makes it particularly well-suited for uses that require larger footprints;
- Residential uses near the south and a portion of the east property line are separated from the site by unopened rights-of-way, and other portions of the property frontage fronting NE 70th Place are significantly separated from the neighbors, which will aid in mitigating potential bulk and mass impacts of future development;
- The elevation of the subject property is approximately 10 feet lower than adjacent residential uses to the east, which will also aid in mitigating potential bulk and mass impacts;
- The site has direct access to the highway; it is reasonable to assume that many vehicles accessing the site would come directly from I-405 rather than utilizing city surface streets;
- Currently, the site is not well-served by frequent transit. If more intense residential or employment were developed on the property, consideration would need to be given to improve transit to/from this location;
- Planning Commission and Council have previously discussed that while housing is a very important need in Kirkland, placing housing (especially affordable housing) directly adjacent to the highway should be avoided in lieu of placing other uses in those locations due to potential impacts of noise and emissions on residents; and
- While not within the boundaries of the NE 85th Street Station Area Plan, the property is within a 10-minute walk of the boundary and could contribute towards catalyzing redevelopment in the station area.



After considering these site characteristics and policy considerations, staff has concluded that the Houghton Park and Ride site is a viable option for the proposed use.

3. Evaluating Potential Community Benefit

Having concluded that the proposed location is feasible, staff then conducted a comprehensive evaluation of the potential public benefits associated with such a project. Given the scale of the proposal, the quality of the organization offering the services and the significant need for more options for recreational activities in our City, staff has concluded a potential Kraken Iceplex located in Kirkland has the potential, subject the resolution of several key issues outlined below, to bring significant benefit to the Kirkland community.

3a. Summary of Iceplex Specific Community Benefits

The Iceplex itself could offer the following community benefits:

- o Significant increase in opportunities for new and diverse physical activity
- o Potential to help catalyze new commercial development and housing in the Station Area
- o Given the Kraken are proposing that the Iceplex would revert to City ownership and operation after 35-40 years, taking on operations of this building would significantly increase future resources for public programming and offer a unique opportunity for potential conversion of some space to an indoor aquatic or recreation facilities.
- o Elevate Kirkland's profile as home to a professional NHL team facility
- o Sales tax, admission tax and parking revenue
- o Added jobs during construction and for the ongoing operations of the facility
- o Visibility can increase sports tourism as visitors are drawn to Kirkland for games, tournaments and other events, especially in the much needed "shoulder season" (Winter and Fall)
- o Potential for free or low-cost skate and hockey programs for families with lower income
- o Local businesses, hotels and restaurants may see expanded business
- o The facility can serve as a hub for social connections and community building
- o Provide an opportunity for a full-service restaurant in an area needing spaces for social gathering
- o Better access to an ice arena for the current skating community
- o Philanthropic initiatives through the Kraken's One Roof Foundation Sponsorship opportunities for local businesses which may provide exposure to a broader audience
- o Potential for skate and hockey programs for the local schools

3b. Public Benefits of adding an 15,000 square foot structure for recreational and community programming.

Should the Iceplex include a 3rd floor, 15,000 square foot space for recreation and community programming, this would almost double the current space available to the community for enhanced community benefit. The North Kirkland Community Center is 6,550 square feet and

the Peter Kirk Community Center is 13,310 square feet, for a total of 19,860 square feet of recreation and community programming space currently available to the community. Adding 15,000 square feet would increase the total available to 34,860. Increasing the recreation services, facilities and programs for all ages and abilities is an explicit goal of the recently adopted Parks, Recreation and Open Space (PROS) Plan. Calling out the need for additional recreation space is repeated throughout the PROS Plan and can be seen in the following goals and objectives.

Table 1: 2022 Parks, Recreation and Open Space Plan Pertinent Goals and Objectives

Goal #1: Expand the Provision of High-Quality Park Experiences to Meet the Active and Passive Recreational Needs of Kirkland Community Members
Objective
1.1: Continue to maintain, expand, and improve existing facilities, components, amenities, and level of service (LOS) based on GRASP® scores, population growth, and urban development guidelines
1.1.C Maintain a similar or greater capital investment per resident as population grows.
1.1.G Pursue the development of an aquatic/recreation center and smaller community centers.
1.1.I Consider and address insufficiencies based on population-based standards, and as identified in the LOS through future capital campaigns. Address short, medium, and long range capital needs.
Goal #3: Provide a Variety of Recreation Services, Facilities and Programs that Promote the Health and Well-Being of Community Members of All Ages and Abilities
Objective 3.1: Maximize use of existing program spaces and work to identify additional program spaces, staffing, and resources to create new programming opportunities.
3.1.A Explore opportunities to lease space to create additional capacity for existing enrichment opportunities until new permanent facilities are available.
3.1.B Pursue the funding, design and construction of an aquatics center that includes recreational programming space, community space, cost-recovery targets, operations and maintenance requirements, and administrative and staff areas.
3.1.C Pursue the funding, design and construction of neighborhood recreation centers in areas with gaps in delivery of recreation services. Explore feasibility, design, location, operator, etc. for two new neighborhood recreation centers that include space for enrichment classes, neighborhood meeting spaces, administrative and staff areas, cost-recovery targets, operations, maintenance requirements, etc.
3.2.C Explore opportunities to acquire property in the Kingsgate Neighborhood for potential placement of a small community center.
3.4: Promote active, healthy lifestyles through additional recreation programming.
3.4.E Establish and operate specialized recreation facilities to respond to identified public needs that may include community gardens, skate parks, pump tracks, a teen center, etc.
4.4 Explore alternative funding options and a voter-approved capital campaign for programmatic and capital expansion.
4.4.C Pursue a voter-approved capital campaign to address facility and space shortages.

An analysis of the current programming data from the recreation division shows extensive waitlists for youth camps, after school programs, parent/child movement programs, music lessons, cooking classes and various other adult special interest programs. Additionally, the PROS Plan indicates that the most important indoor recreation programs and programs with the

lowest scores for needs being met include fitness programs, health and wellness programs, culturally specific programming for seniors, and special interest/education programs. This indicates spaces that could be developed in the potential 15,000 square foot 3rd floor space of the Iceplex for recreation and community programming. Possibilities for this space include:

- Activity room for yoga, aerobics, tai chi, martial arts, dance, etc.
- Multi-purpose classroom for cooking, film making, job training skills, clinics, etc.
- Youth programming room for day camp, before/after school, preschool, etc.
- Art/crafts classroom for art lab, parent/child art, painting, craft making, watercolor, etc.
- Music classroom for musical instrument lessons like piano lessons, small jam sessions, practice space, etc.
- Computer room for all types of computer and technology classes for all ages, STEM camps, gaming, etc.
- Gathering space for informal community connections like coffee time, coffee with council, support groups, book clubs, etc.
- Cultural center for cultural holiday celebrations, group meetings
- Community meeting room with a kitchen for cooking classes, meetings, weddings, trainings, church services, etc.
- Roof top park for possible pickleball, park like green space, and pavilion for events with a view like weddings

These types of programs would provide significant community benefits beyond what the Iceplex would provide for the community. Potential benefits include the following.

- Would meet the goals established in the PROS Plan for additional recreation space and programming
- Would allow expansion of recreation programs that would reduce or eliminate wait lists for high-demand programs
- Could help fill critical gaps for childcare and youth camps
- Could provide a new and unique venue with a view for meetings, weddings, trainings, community events and cultural celebrations

This potential new recreation and community space would have similar benefits than those offered by the Iceplex, such as creating jobs, providing new and diverse opportunities for physical activity that promotes health and wellness, opportunities for social interaction and community building, and can support local businesses through sponsorship and contracting for services. This new space would likely open before the need to close the North Kirkland Community Center for renovation or expansion; thus, minimizing impact to the community by preventing the loss of programs, classes, and activities.

4. Key Issues in the Proposal

Given the unique nature of the economics of professional sports, and the significant scope and potential future impacts of a proposal of this nature, staff solicited interest from consulting firms with experience in the field. From the responses, staff selected CAA ICON to perform a third-party economic analysis of the Kraken proposal. CAA ICON is a well-known and highly respected firm that has worked closely with many major league teams and cities throughout the country. The firm's qualifications include:

- **Directly Applicable Experience:** CAA ICON has directly applicable experience with planning and operation of similar facilities. Relevant engagements include a market and financial feasibility study of a proposed multi-sheet ice complex in Folsom, CA; expansion of the UPMC Lemieux Sports Complex in Cranberry, PA; and market and financial feasibility analysis of MACU Community Iceplex in Tempe, AZ, among others. One of the resources at CAA ICON oversaw operation of the UPMC Lemieux Sports Complex (training facility for NHL Pittsburgh Penguins), providing valuable perspective as a former operator of a similar facility.
- **Experience in Washington:** CAA ICON has experience working with public sector entities throughout the State of Washington, including multiple engagements with both the Washington State Major League Baseball Stadium Public Facilities District (“PFD”) and Washington State Public Stadium Authority (“PSA”), as well as engagements with the NFL Seattle Seahawks, MLS Seattle Sounders, City of Bellevue, MiLB Tacoma Rainiers/Wachovia Bank N.A., and Seattle University. This direct experience provides a detailed understanding of regional markets; the State’s unique tax and legislative environment; and public financing mechanisms available at all levels of government.
- **Database of Comparable Information:** CAA ICON has access and insight into closely-held operating data for similar facilities. This pertinent information will be used to evaluate the reasonableness of key assumptions, as well as revenue, expense, and operating income estimates. This will allow the City to make data-driven decisions based off proven models as opposed to hypothetical hypotheses.

4a. Scope of Work

The scope of work for this evaluation includes the following major tasks:

- **A Market Demand Analysis** will be developed to understand market capacity and potential demand for the proposed project. The analysis will inform consultant’s review of the Kraken’s assumptions. The task includes evaluating demographic and market characteristics, destination amenities, comparable and competitive facilities, and potential user pool.
- **A Review of Financial Projections** will include review of the Kraken’s key assumptions used in their financial estimates and comment on their reasonableness. The review will also include collecting and evaluating operating revenues and expenses for comparable facilities, comparing the Kraken assumptions to the consultant’s database of comparable facilities and adjusting for local characteristics. The review will also estimate the percentage of revenues that are new to the City of Kirkland in consideration of competitive facility supply and anticipated facility users.
- **An Economic and Fiscal Impact Analysis** that will quantify potential impacts for the construction period and recurring operations. Impacts from recurring operations will be reported in two primary categories, facility-related spending and patron spending. The Kraken’s proposed operating model will be used to estimate impacts as the type of events the Kraken are proposing to host will impact estimates. This analysis will estimate direct and indirect spending and estimate the fiscal impacts of the direct spending based on the City’s tax structure. In addition to estimating the fiscal impacts, this task will also include a qualitative assessment of other benefits, including “reputational value” to a city.

At the completion of this work, the consultant will develop a report summarizing key findings and recommendations from the analysis for use in the City's internal decision-making process.

4b. Financing Options

While the Kraken's proposal refers to the possibility of interim construction financial assistance, there are other potential funding approaches that may be beneficial for the City to consider to increase the public benefit to the City. Which approaches may make sense to consider further will be dependent, in part, on the information generated by CAA ICON's work.

- The Kraken proposed that "Kirkland would cooperate with Kraken effort to serve as conduit to borrow \$40M in short term (2 yrs) construction loan financing from King County with interest expense and loan guarantee paid by the Kraken and paid off 6 months after completion of construction." In speaking with King County Director of Performance, Strategy and Budget Dwight Dively, staff has an understanding of what the County might provide in terms of short-term funding, which was discussed in relationship to the redevelopment of Memorial Stadium in Seattle. Based on this discussion and a meeting with Seattle regarding the Memorial Stadium project, there are other short-term financing options that could be explored that may include Kirkland providing this short-term financing capacity.
- Another option might be that the City issues bonds backed by revenues from leasing the facility to the Kraken. By lowering the cost of capital to construct the facility, the City may be able to achieve great public benefits from the project, such as financing the construction of the 15,000 square foot City recreational facility. Staff has begun discussions with the City's Bond Counsel, Pacifica Law Group on how this concept could be applied to this proposal.

This option might also include pursuing a design/build/operate agreement with the Kraken under RCW 39.10.280, however this would require approval of the state's Capital Projects Advisory Review Board (CPARB).

4c. Development Agreement

A Development Agreement may be necessary to detail the obligations of both parties and specifying the standards and conditions that will govern development of the property. A detailed lease agreement will be required that defines the agreement among the parties and secures the financing. Staff has identified legal counsel with expertise in these areas to help support the City.

In addition, staff met with Ann Kawasaki Romero, the retired Executive Director of the Public Stadium Authority, to hear lessons learned and obtain the lease arrangements for Lumen Field with the Seahawks and the Public Facilities District (T-Mobile Field) and the Mariners. The lease agreement will be one of the essential documents to clearly define and enforce roles and responsibilities, to ensure preservation of the public investment. A few of the key provisions highlighted include:

- Ensuring that quality of construction and requiring investment in major maintenance, including monitoring that required investments are made to ensure the building is in good condition throughout the Kraken operating period and at the end of the lease term,

- Mitigating the risk of the team selling, moving, or filing for bankruptcy through guarantees that would require the lessee to repay outstanding debt, and
- Defining public benefit goals by identifying use of local and/or disadvantaged businesses, programs or pricing breaks for residents and/or people in need.

The City was strongly advised to use subject matter/legal experts with specific experience in this field given the complexities and risks associated with these types of relationships. Pacifica Law Group has several partners with extensive experience negotiating such agreements with the Seahawks and Mariners on behalf of government jurisdictions.

In addition to the City issuing bonds using existing GO capacity, other options on how financing and project delivery are structured might involve:

- Public Development Authority (excerpted from MRSC.org) - Cities, towns, and counties may form public development authorities (PDAs), which are special purpose quasi-municipal corporations that are primarily authorized under RCW 35.21.730-.759, which allows local governments to create or contract with "public corporations, commissions, or authorities." Communities establish PDAs for a variety of reasons, often for unusual endeavors that, for a variety of reasons, the parent city or county would not want to undertake itself. Given the unique nature of this proposal, a PDA might be appropriate, but only if the benefits warrant the additional complexity.
- Another statutory option, a Public Facilities District (PFD) under chapter 35.57 RCW to develop, improve, and operate "regional centers" (defined in RCW 35.57.020) costing at least \$10 million and serving a regional population, is not available to cities in King County under current statutory authority. It is mentioned here because it has been used for sports facilities elsewhere in the state (and T-Mobile Park is owned and operating by the Ballpark PFD in King County).
- Other project delivery options, such as the use of a public-private partnership for financing and/or risk management of the capital project delivery (for example, 63-20 financing where a non-profit and developer are responsible for project delivery) may be considered.

Approving a Fiscal Note for Additional Subject Matter Expertise

To complete the early and exploratory work set out above, staff recommends Council approve a fiscal note approving funding for the external resources identified to provide expertise beyond the capacity of City staff. This is a significant financial request, but staff believe the expertise and due diligence required to help the Council evaluate options for a public/private opportunity of this magnitude and complexity are necessary. The total fiscal note would add \$247,500 to departmental budgets, which would be drawn from the original budget that was set aside for the purchase of the Houghton Park & Ride property. This request would provide funding in 5 areas:

1. Land use/Zoning Legal Support: \$50,000
2. CAA ICON: \$72,500
3. Contract with Tracey Dunlap: \$25,000
4. Additional Legal/Financing Expertise subject to Council authorization to pursue a deal: \$50,000
5. Community Outreach and Engagement Support \$50,000

As discussed during the [Council's deliberations on the 2023-2024 budget](#), there was initial concern that the purchase price of the Houghton Park & Ride would be higher than the \$10m allocated to the CIP project. In response to this, an additional \$2m of General Fund balance was set aside for this eventuality. As the final purchase price was below \$10m, this additional allocation remains available, and this work fits into the original intent that this funding be used for that location.

Next Steps

Staff is seeking approval of the attached fiscal note through approval of the consent agenda of the May 21 Council meeting to allow continued evaluation of the proposal and development of information for Council consideration. Staff will return to a future Council meeting with options for a term sheet that responds to the Kraken proposal and creates public benefit to the community. Following Council review and approval of the term sheet, staff will engage the Kraken in negotiations. At the appropriate time, staff will also begin community outreach and engagement in partnership with the Kraken.

List of Attachments

Attachment A – fiscal note

Attachment B – preliminary analysis of proposal elements

FISCAL NOTE**CITY OF KIRKLAND**

Source of Request														
James Lopez, Deputy City Manager for External Affairs														
Description of Request														
Use of \$247,500 of General Fund balance to fund five contracts related to exploratory work on the Seattle Kraken's proposal to build a community IcePlex on the former Houghton Park & Ride. This request would use funding originally set aside for potential additional costs associated with the purchase of the site. The following amounts would be funded: 1Legal Support: \$50,000 2CAA ICON: \$72,500 3Contract with Tracey Dunlap: \$25,000 4Additional Legal/Financial Expertise subject to Council authorization to pursue a deal: \$50,000 5Community Outreach and Engagement \$50,000														
Legality/City Policy Basis														
Fiscal Impact														
Recommended Funding Source(s)														
Reserve	Description	2024 Est End Balance	Prior Auth. 2023-24 Uses	Prior Auth. 2023-24 Additions	This Request	Revised 2024 End Balance	2024 Target							
Revenue/Exp Savings														
Other Source	General Fund Working Capital - funding was set aside as part of the original 2023-2024 budget process													
Other Information														
Staff will include the line items for this adjustment as part of the June 18 budget adjustments														

Prepared By	George Dugdale, Financial Planning Manager	Date	5.9.24
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Full analysis of the Kraken's proposal will be possible with the completion of proposed external reports and assistance. However, to provide a basis for the conversation staff provided preliminary analysis on some key elements of the proposal.

1. *Waiver of development and permit fees and Kirkland portion of construction sales tax.*

As part of their proposal the Kraken requested that Kirkland waive development fees, as well as the Kirkland portion of the construction sales tax.

There is a real cost to waiving development fees, as these directly and necessarily contribute to operations of development review divisions. It takes considerable staff resources to review permits, and the City is obligated to recoup these costs. KMC 21.74.015 does authorize the Planning and Building Director to adjust fees to match the scope of a project, however, instances of such adjustments are rare. In recent history, the Department has not even granted adjustments for projects with abundantly clear community benefits, such as affordable housing projects. At this point in the City's consideration, potential community benefits of a Kraken facility have not been fully articulated, therefore the Department does not yet have reasonable justification to adjust any fees necessary for the expected resource expenditures.

Sales tax in Washington is remitted to the State Department of Revenue (DOR) directly by businesses, and the DOR then allocates the taxes back to other taxing authorities. Because of this structure, Kirkland cannot waive the sales tax associated with any activity in Kirkland. Any effort to refund sales tax would be subject to the same gift of public funds rules as any other government expense, making this route impractical.

2. *Kirkland would cooperate with Kraken effort to serve as conduit to borrow \$40M in short term (2 yrs) construction loan financing from King County with interest expense and loan guarantee paid by the Kraken and paid off 6 months after completion of construction.*

In speaking with King County Director of Performance, Strategy and Budget Dwight Dively, staff has an understanding of what the County might provide in terms of short-term funding, which was discussed in relationship to the redevelopment of Memorial Stadium in Seattle. Based on this discussion and a meeting with Seattle regarding the Memorial Stadium project, there are other short-term financing options that could be explored that may include Kirkland providing this short-term financing capacity.

3. *Kirkland could offset the entire cost of the community center and land acquisition cost from the Kraken tax payments we estimate at \$600k per year. (Property \$400k, B & O \$45k, Sales \$110k, Admissions \$45k)*

The original proposal received from the Kraken did contain the detail behind the estimated tax payments to the City. The estimates in the proposal are based on the experience of the Kraken at their facility in Northgate, as well as the operating assumptions made by the Kraken. In follow

up conversations with staff, the Kraken were able to provide some back up to these assumptions, and based on that information and knowledge of the Kirkland tax code, staff provide the following observations:

1. Property tax \$400k – as this site is owned by the City and will continue to be owned by the City under the proposal, property tax would not be due. This is true of all publicly owned properties. However, if a publicly owned site is used for a non-public use the City must collect Leasehold Excise Tax. Leasehold Excise Tax is 12.84% of the fair market rate, of which 31% goes to Kirkland with the remainder being split between the County and the State. Fair market rate would be calculated based on the value of land and capital improvements, rather than the lease charged to the Kraken, so the City is required to calculate and collect this tax even in a situation where the City agrees to a \$1 lease.

Under a scenario in which fair market rate was based on \$9m land value, and \$45m of capital improvements, leasehold excise tax would be a total of just over \$300,000 in the first year, of which about \$95,000 would go to the City of Kirkland.

2. Business and Occupation (B&O) Tax \$45k – Kirkland does not have a B&O tax, which is a business tax normally charged on either gross receipts or square footage. Instead, Kirkland's Revenue Generating Regulatory License (RGRL) is charged based on FTE. Information from the Kraken on the projected employees in Kirkland indicates that Kirkland could receive around \$4,000 in business licenses and RGRL revenue.
3. Sales and Admissions Tax \$110k & \$45k – The City does not have an accurate way of testing these assumptions. Work being undertaken by CAA ICON will help to generate an estimate for the Kirkland site. However, the Kraken based their estimates on revenue generated in Seattle, which has the same structure as Kirkland for these two taxes.