

April 17, 2006

Honorable Greg Nickels, Mayor
Honorable David Della, City Council
City of Seattle
600 Fourth Avenue
Seattle, Washington 98104

Dear Mayor Nickels and Councilmember Della:

The purpose of this letter is to clearly summarize the position of the Seattle Sonics and Storm concerning a KeyArena renovation project that would be premised on our continuing to play there following the expiration of our current lease in 2010. We are aware, of course, that the City Council is close to concluding its work on the future of KeyArena, with or without us. Also, in recent conversations with you and other Councilmembers, we have been advised that we should definitively articulate our expectations for any project and lease that would be of interest to us longer term.

For several years we have been clear that we require a competitive arena and a competitive lease. The current facility is not competitive compared to league standards and neither is our current lease. Trying to raise the issue of the future of professional basketball in our community has been frustrating, certainly for us and possibly for you. While we appreciate your efforts and those of other leaders, particularly including Governor Gregoire, we sincerely regret that more progress has not been made and that, indeed, the future of the sport here remains in doubt. In an effort to respond to the Governor's request, articulated in her March 31, 2006 letter to Mayor Nickels, that we together resolve the question of whether we stay at KeyArena, we offer the following:

The Facility

- The Mayor's KeyArena Task Force recently concluded its months-long review of that facility and recommended a substantial renovation costing an estimated \$220 million. Although the resulting facility would be an average one compared to others, it would meet our requirement for a reasonably competitive arena. We would sign an appropriate long-term lease to continue to play there.

One significant disappointment with the public discussion of this issue to date is the lack of understanding of what it means to continue to use KeyArena. The recommended project is cheaper than a new arena because it utilizes an existing asset that benefited from a prior renovation project. The earlier work will continue to have value and the new project capitalizes further on that investment. This is not a throw-away and start-over project; it is a substantial renovation, but still very much an incremental one. Importantly, the costs of the earlier project have been almost entirely paid by a combination of direct capital investment by the Sonics (\$21 million) and \$77.6 million in revenues directly generated by the Sonics and Storm to service the KeyArena debt, not taxes. In addition, the City chose to divert admissions taxes on our events for other purposes rather than dedicating them to help retire renovation project debt. The attached chart illustrates these points. As comparisons with the public/private partnerships represented by Safeco Field and Qwest Field are frequently made, we have included that information as well.

- Even though we already substantially paid for the initial renovation of KeyArena, we will make a further investment if the City were to decide to proceed with the Task Force's recommended project. For an acceptable facility and lease, we will invest not less than an additional \$18.3 million in such a project.
- We also expect to manage design and construction of the project, subject to City oversight. The project would need to be exempt from public bidding, but we would use a GC/CM process comparable to the City's and the one used to develop and construct Qwest Field. Our contractors would pay prevailing wages, participate in apprenticeship programs, comply with WMBE and other conventional public works requirements.

- If we manage the project, we will bear responsibility for any cost overruns, effectively capping the public investment and likely increasing ours.

The Lease

We expect to have an industry-standard lease. The basic terms outlined below reflect the now customary relationship between public landlords and major league professional sports franchise tenants. For instance, both the Seahawks and the Mariners operate their publicly owned facilities under comparable leases.

- Were the City to proceed with the Task Force recommended project, we would enter into a new 20-year lease of the facility and play our home games there.
- We would manage and operate the arena and pay rent to the City of not less than \$1 million per year. If the City chooses, the rent payments could subsidize Seattle Center operations.
- We would pay all operating costs, including routine maintenance, and, thus, retain all revenues derived from operations. By shifting all operating risk to us, the City avoids any possibility of ongoing operating losses on the arena.
- We would expect the City, as the arena's owner, to continue to be responsible for longer term capital improvements.
- We would commit to continue to operate the facility as a multipurpose public arena, including maintaining a use profile (basketball to nonbasketball events) substantially comparable to the present. This would ensure that the arena would remain an integral part of the Seattle Center.
- Current City employees would be offered continued employment pursuant to a process comparable to that used in transitioning operation of the Woodland Park Zoo to private management. Although the National Labor Relations Act constrains commitments that can be made at this stage, we note that former City employees

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continue to be represented by labor organizations as Zoo Society employees. We would be open to a similar outcome at KeyArena.

We agree with the Governor that it would be best for both the City and the Sonics and Storm to come to closure on whether we will remain at KeyArena after 2010. Doing so this month in the context of the Council's ongoing process seems appropriate and reasonable. Our abiding preference, as we have repeatedly said, has been to stay. We have been proud to call Seattle Center home court for four decades. Were the City to proceed with a project and be willing to enter into a lease that meet our requirements, we would join with the City in extending that legacy to our mutual benefit. While a development agreement and a lease would need to be negotiated and, obviously, be subject to the availability of project funding, please understand that the purpose of this letter is to outline how we would convert KeyArena into a reasonably competitive facility and to define an industry standard landlord/tenant relationship. It is not to be interpreted as the opening offer in a protracted negotiation that could yield something materially different. If it is not a realistic possibility that our requirements can be met, we both need to move on. We say this without acrimony or recrimination. In the event we do part company, we hope to be able to do so in a mutually respectful way in the spirit of a partnership of such long and honorable duration.

Thanks again for your efforts in this regard. I would be pleased to respond to any questions you may have.

Sincerely yours,

The Basketball Club of Seattle LLC
(Seattle Sonics and Storm)

Wally Walker
President and Chief Executive Officer

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Attachment

cc: Honorable Christine Gregoire, Governor
Honorable Ron Sims, King County Executive
Honorable Mike Hewitt, State Senator
Honorable Margarita Prentice, State Senator
Honorable Mike Armstrong, State Representative
Honorable Jim McIntire, State Representative
Honorable Sally Clark, Seattle City Council
Honorable Richard Conlin, Seattle City Council
Honorable Jan Drago, Seattle City Council
Honorable Jean Godden, Seattle City Council
Honorable Nick Licata, Seattle City Council
Honorable Richard McIver, Seattle City Council
Honorable Tom Rasmussen, Seattle City Council
Honorable Peter Steinbrueck, Seattle City Council