

# ***POLICY BRIEF***

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## **Financing a New Penguins Arena**

In 1999 the Pittsburgh Penguins emerged from bankruptcy court and were purchased by its former star, Mario Lemieux. At the time of purchase, he suggested that the long-term viability of the franchise would rest on the ability to obtain a new facility to replace the Mellon Arena. His ownership group contends that when they purchased the team, the Sports and Exhibition Authority (SEA) promised to have a financing plan for a new facility in place by June 30, 2002. That deadline is almost here.

Pittsburgh already has significant public investment in three structures, Heinz Field, PNC Park, and the new David L. Lawrence Convention Center. The three projects combined have cost \$873 million, with 80% of the financing coming from the public.<sup>1</sup> The Penguins would like to be the fourth, and would like the public to fund at least 82% or \$184.5 million of the proposed \$225 million price tag on a new 18,118-seat facility. (This would be similar to the deal received by the Pirates, who contributed only about 18% (\$47.7 million) to the \$260 million cost of PNC Park.)

However, there is a potential problem looming for Team Lemieux LLC. Public money is in short supply. The City of Pittsburgh, Allegheny County, and the Commonwealth of Pennsylvania are facing budget problems in 2002 and for the foreseeable future. Elected officials have been non-committal in offering the team financial help. The Allegheny Institute has produced a funding plan for the Penguins to build a new arena with minimal public assistance.

Some background and assumptions of the AI plan. The first assumption involves the Mellon Arena. If the team is expected to thrive in a new venue, the Mellon Arena will have to be removed. The area already has a number of venues that can host concerts, shows and other non-hockey events that would compete against the new facility. An operational Mellon Arena would make hosting non-hockey events even more challenging.

The new facility would be built and owned by the SEA and leased to the team for 29 ½ years. The team will be the principal tenant and assume control of all scheduling and revenues at the facility. The SEA can use the State's contribution, \$60 million promised by then Governor Ridge, for infrastructure and site preparations.

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<sup>1</sup> The Convention Center's final cost is \$332 million (all public). Heinz Field cost \$281 million (\$123 million private--44%) and PNC Park cost \$260 million (\$47.7 million private—18%).

The basic premise of the AI plan is to let the facility pay for itself. That is, let the Sports and Exhibition Authority borrow bonds against revenue streams that will be generated at the new facility. Using revenue bonds to finance a sports venue has been used successfully in Denver, Miami, and New England.

In order to be able to finance the debt on a \$225 million bond issue, the SEA will need to set aside approximately \$15.5 million per year (for 30 years). Depending on the amount of the state contribution, perhaps only \$170 to \$180 million would need to be borrowed to complete the arena. In order to accomplish this we suggest that the SEA could: 1) add a \$2.50 surcharge to the price of every ticket for every event held at the arena; 2) collect 10% from the sales of concessions at both hockey and non-hockey events; 3) collect 10% of all luxury box sales; 4) collect \$2.5 million from indoor arena sponsorships; 5) collect the annual proceeds from naming rights; and 6) redirect the \$3.2 million in RAD payments currently being allotted to the Mellon Arena. These streams would be above and beyond the one-time fees collected from sales of permanent seat licenses (PSLs) and whatever State aid above the infrastructure funds. In a conservative “likely scenario”, the SEA should realize a revenue stream of about \$17 million, more than enough to cover the bonds required to build the arena. In a “conservative/pessimistic scenario”, they should still be able to bring in about \$13.8 million.

In years when revenues fall short money could be drawn from funds placed in an escrow account (from the SEA’s share of revenues from PSL sales and from years when revenues exceed \$15.5 million), so that the debt obligations can be met. The important point is that the team gets a new arena with control of most of the revenues and the public contributes very little.

As to be expected, the team has not embraced the Allegheny Institute’s plan. A top official with the club said the plan “won’t work, period” and that “a team cannot be viable without significant public investment in a new arena”. As mentioned above, public money is in short supply, especially in this sluggish economy. Pittsburgh is not in a position to tax tourists as the hotel tax is being diverted to the new convention center. If the team wants a new arena, the eventual funding plan must depend heavily on revenues generated from the arena.

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