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Steelers want to dip into taxpayer pockets—again

Summary: The Sports & Exhibition Authority will be requesting money from the Regional Asset District board to set up a fund to pay for anticipated capital repairs to the sports facilities and the convention center it owns. This is a very bad idea, especially when considering how the teams have generously benefitted from their leases.

In late August it became public that the city/county-controlled Sports & Exhibition Authority (SEA) intends to ask the Regional Asset District (RAD) board to allocate $1.16 million in 2019 for capital repairs and improvements at four SEA-owned facilities—Heinz Field, PNC Park, PPG Paints Arena and the David L. Lawrence Convention Center.

Keep in mind that the RAD board, with money from the additional one percent sales tax Allegheny County collects on all taxable items, already gives the SEA $13.4 million annually for the bond payments used to pay for the construction of the two stadiums. The $1.16 million would be another dip into taxpayer pockets by the area's sports teams.

The head of the SEA wants to create a new fund to help with capital repairs and improvements expected to arise as these facilities age. PNC Park and Heinz Field were opened in 2001, the convention center in 2003 and the hockey arena in 2010. Each venue has its own capital reserve fund that has been used for some upkeep but this would be a multi-facility fund designed as a supplement to the individual reserve funds. Thus, the initial $1.16 million request is likely to be followed by another and then another and so on.

The Steelers quickly supported the plan. Representatives from the other teams have been mum as of this writing.

A representative of the Steelers was quoted as saying "The SEA, like any landlord, has lease obligations for capital repairs. This request will help ensure that these buildings continue to host and promote events, concerts, conventions, and games." While this person is correct in that a typical landlord is obligated for the capital upkeep their property, the fact is that the SEA is not a typical landlord, nor is the lease between the team and the SEA a typical lease.

Typically a landlord builds into the rental payments enough money to pay for capital improvements and repairs. But again this is not a typical lease. Its duration is for 29.5 years and conveys all but ownership to the team. Consider that the lessee in this case realizes

nearly all of the revenues generated at the facility, with minimal lease payments. It does have a schedule of lease payments—three $25 million installments each due every 10 years covering the period of the lease. The total comes to $75 million paid over 30 years or $2.5 million per year on average. That would be on a stadium built for $261 million (not including interest payments on funds borrowed to build the facility).

But that is not the end of the story on lease payments. The lease provides for credits the team can earn to offset the rental payments. To quote the lease: "The credits available for the first ten-year period of occupancy shall be amounts of eligible taxes paid to the Commonwealth in respect to that ten-year period which exceed the product of the Base Line Tax Amount multiplied by 7.5."

The Base Line Tax Amount comes from the Capital Facilities Debt Enabling Act of 1999 (Section 501) in which the base line is the average of taxes paid by the organization for the three-year period of 1996-1998. It consists of payments for "all corporate net income tax, capital stock and franchise tax and personal income tax related to the ownership and operation of the professional sports organization." It also consists of all personal income tax withheld from its employees, the employees of any provider of events, those of the performers or other participants, including those of the opposing teams, all sales and use taxes related to the operation of the professional sports organization and the facility and enterprises developed as part of the facility complex. It also includes all taxes paid on the sale of alcoholic beverages at the facility or complex in addition to any tax imposed by the commonwealth after passage of the Act in 1999.

A request made to the SEA asking how much rent was paid after the first 10 years has not yet been returned. A look at the audited financial statements (2010-2012) provides no indication that a payment was made.

These deductions had the potential to offset a substantial portion, if not all, of the $25 million rent due after the first 10 years. Any credits exceeding $25 million can be carried over to the next rent payment. Moreover, for the second (due in a couple of years) and third payments, these deductions are multiplied by a factor of 10 to calculate the credit against the rent. Again it's not a typical lease.

Moreover, the lease gives the team almost all of the revenues generated at the facility. From the lease: "The Lessee … will retain 100% of the revenue from all Sporting Events and other activities, and 85% of the Event specific Net Revenues from Non-Sporting Events." "Net Revenues" are defined as "ticket or gate receipts (including tickets for suites) (net of taxes) less any deductions for direct Event specific expenses…" Furthermore the team keeps 100 percent of all concession revenues earned at events held at the stadium (other than community events) as well as 100 percent of the revenues from novelties and programs, in-stadium advertising, naming rights and all other revenues generated at the facility. The team also gets to keep 100 percent of the parking revenues from event days (after paying the SEA an annual fee for those spaces of $44,800).

The SEA does get to keep some revenues in addition to the 15 percent of the "Net Revenues" from non-sporting events. For example, there is a $3 ticket surcharge on NFL events that goes to the SEA. Any money in excess of $1.4 million in each lease year from this surcharge is to be deposited into the capital reserve fund. A surcharge of $2.25 is added to each ticket

for non-NFL events (originally $2 for the first 10 years and will go up to $2.50 after the 20th year.)

The lease also grants the teams (Steelers and Pirates) with development rights for the land between the two stadiums. From section 7.7.7(b) (Future Development and Parking Revenues) the Steelers were guaranteed three things: first they get to approve all developments that take place between the stadiums; secondly, they are guaranteed a certain level of parking availability; and finally they are guaranteed "that the Authority will share with the Lessee the revenue derived from the sale or lease of property in the Option Area for the purpose of offsetting the Lessee's funding of the annual operating and maintenance costs of the Stadium and the loss of parking and development revenues... ." In short, both teams realize some revenues from the lease of the land between the two stadiums. And that doesn't count the $2.5 million taxpayer subsidy the Steelers received to build the concert venue near the stadium—which they own and keep those revenues as well.

The stadium and the generous lease have been so lucrative they have helped boost the value of the team tremendously. In Forbes magazine's 2018 ranking of valuable teams, the Steelers were valued at $2.45 billion. To illustrate how much money is in the NFL, they rank as the 16th most valuable franchise in the league.

The lease between the football team and the SEA was designed for the team to retain the overwhelming majority of the revenues generated at the facility, leaving the authority that owns the building with very little in the way of facility-generated revenues. Of course the stadiums were going to need repairs as they age. But the SEA isn't in much of a position to pay for them since it doesn't receive much from the operations of the facilities it owns. The convention center has yet to live up to its promise to run in the black.

The request to the RAD board for $1.16 million to supplement capital expenditures should be rejected. That money could be better used elsewhere such as the county parks or even the Pittsburgh Water and Sewer Authority to help with its crumbling infrastructure. After all, the RAD board provides funding to the Port Authority so the precedent has been established.

The teams that have already benefited enormously from taxpayer money should shoulder the responsibility for any repairs or capital improvements. These costs ought to have been factored into the lease agreements. It's a travesty for an organization with average pay in the millions that has been a huge beneficiary of taxpayer generosity to be asking for more tax dollars.

Frank Gamrat, Ph.D., Executive Director

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Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org