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A New Home for the Penguins? Let's Finance It Privately!

It appears Pittsburgh may be about to join a very short list of cities with three shiny new sports facilities. The Penguins' campaign for a new arena seems to be gaining momentum. But, as in the case of PNC Park and the new Steelers' Stadium, the question is: "Who will pay for it?"

Well, we're not about to join the tax and spend crowd. The franchise's recent history: two Stanley Cups, perennial playoff contention, and the return of Mario Lemieux make the Penguins Pittsburgh's most successful team over the last decade. All that notwithstanding, the new home of the Penguins should be financed in large part through some kind of public offering that would provide the community and surrounding environs the opportunity to show their support and loyalty by subscribing to purchase ownership shares in the new arena. These shares could be priced as low as $500 each; for which the "investor" would receive a suitably framed certificate naming him or her a "Founding Patron." After all, there are sports operations around the country that are privately financed--the Green Bay Packers and the Boston Celtics are publicly held corporations with common stock traded in the secondary market. For example, "Big Jack" the Washington Redskin's stadium was built without any tax dollars whatsoever, as were new hockey arenas in Atlanta and nearby Columbus.

This is a serious and practical proposal. Some additional sources of private funding must be found since it is abundantly clear that taxpayer-based financing is out of the question in the case of a new arena. RAD funds are unlikely to be available because of the diversion of $13.4 million annually to fund the new baseball and football stadiums; the hotel tax is almost totally committed to the new convention center, and it's pretty clear that a practicable additional rental car tax will not generate sufficient revenues to float the required bond issue.

We estimate the price tag of the new facility to run as high as $160 million, based on the cost of arenas recently constructed elsewhere. For example, the Minnesota Wild's new rink in St. Paul cost $130 million, while Columbus' new arena cost $150 million. Atlanta's new facility came in at $213 million, but Ted Turner's expensive taste and fat wallet helped to skew the price upward. Apparently Governor Ridge has authority to provide $60 million in state funds for a new hockey venue in Pittsburgh. Assuming that amount is forthcoming, which we hope will not happen, approximately $100 million would need to be raised to complete construction and outfit the arena with suitable amenities. Certainly naming rights can be a part of this funding as will the sale of seat licenses and luxury box presales. We estimate the arena could be funded as follows:

Funding Sources

Naming Rights	$30 million
Permanent Seat License Sales	$25 million
Luxury Box Pre-sales	$5 million
State Funding	$50 million
Shares of new Arena Corporation	$50 million
Totals	*$160 million*

The dollar amounts in the above table represent conservative estimates, based on data from newly completed sports arenas such as those mentioned above. According to Sports Business and Industry Online the top five naming rights deals for hockey arenas average $126 million over a 23-year span. Our estimate of $30 million is a bargain for what will surely be known as the "best hockey venue in America".

Columbus' Nationwide Arena does not have a naming rights deal. Nationwide Insurance Company owns 90% of the $150 million facility. (Maybe one of our local corporations would like to own an arena?) They did however sell Permanent Seat Licenses (PSLs). Columbus' range of $500 to $3,000, suggests an average of more than $1,500 per seat. At this price and 18,500 seats (the average for new arenas), the Penguins could easily raise more than the $25 million we estimated. Likewise, presales of luxury boxes will work in the same fashion. Nationwide Arena has 52 luxury boxes and 26 loge boxes. Selling the luxury boxes for $75,000 each and the loge boxes for $45,000 will bring more than $5 million.

The final piece to the puzzle is the sale of shares in an arena corporation. The Penguins would have to spin off a new organization, which would own the arena. This corporation would then sell shares to the public. As mentioned above, these "investors" would receive honorary mention at the facility, such as having their names engraved in the wall, etc. At an average of $1,000, the new corporation would have to sell 50,000 shares to raise $50 million.

The Penguins would like a new arena to "stay competitive". The governor may be willing to put up some money, but local taxpayer pockets are empty. In order to achieve their goal, the team is going to have to be creative in their financing. The underlying principle of our proposal is to let those who enjoy the facility the most, pay for it.

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Note to readers: For those of you who are trying to use our website, it has been shut down and is being reconstructed. We apologize for the inconvenience. Watch for the debut of our new website www.alleghenyinstitute.org*, coming soon.*

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