POLICY BRIEF

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Penguins Arena Funding--Back to the Drawing Board

This week the Sports and Exhibition Authority (SEA) released its long-awaited arena-funding plan. According to the plan, the team and other private sources are required to contribute $108 million of the $270 million price tag (40%) while taxpayers get the tab for $160 million (60%). To put it bluntly, the SEA plan relies too heavily on taxpayers and not enough on arena-generated revenues. This is a facility that can be used 365 days per year. It ought to be largely self-financed.

The SEA's largest taxpayer-funding component comes from the state—$90 million, which is well above the $60 million promised by Governor Ridge. Governor Schweiker has stated that the actual amount of state funding is still to be determined. In order to raise the $60 million, the State Senate has passed legislation that raises the current debt ceiling by $250 million. This move has not yet been embraced by the House or Governor Schweiker. And it might not receive their support in light of ongoing budget woes that have forced funding cuts to higher education and caused several taxes to be raised including backpedaling on promised Capital Stock and Franchise rate reductions.

The SEA's next largest taxpayer-funding source is the Regional Asset District (RAD). Currently, the SEA receives $3.2 million annually from the RAD board to cover debt on the Mellon Arena. The SEA plan will continue that stream until 2007 when it raises the RAD contribution in steps until 2014 when it reaches $5.7 million per year. This assumes one of two things: the recent decline in sales tax receipts will return to a growth path to support this increase; or other RAD dependent organizations will be forced to take cuts in their funding to support the new arena.

An earlier plan released by the Allegheny Institute outlined how revenues generated by the facility can be used to pay for most, if not all, of the arena. This would be done through a ticket surcharge, luxury and loge box rentals, concessions, sponsorships, the sale of permanent seat licenses and naming rights. It is worth noting that the SEA plan relies on several of these recommended revenue producers.

In the Allegheny Institute plan the team would be in charge of managing the arena and be responsible for the booking of non-hockey events. This puts the onus on the team to maximize the facility's revenues. The more events the team books, the more income they receive while at the same time producing more revenue for the SEA that could help retire the arena debt more quickly.

In stark contrast, the SEA plan calls for the team to be the primary tenant but gives the team little or no say about how the facility would be used for non-hockey events. Thus, the new arena runs the risk of being underutilized. If properly managed, an indoor multi-use facility could easily host 150 events per year (the SEA estimates that the new facility would host 128 events) and earn enough revenues to pay for itself. Putting the principal tenant--the arena's main beneficiary-- in charge of the facility would create the incentive to ensure that happens.

Another possible private funding source is the land under and around the Mellon Arena. Both the Allegheny Institute's and the SEA's plans call for the removal of the Mellon Arena. That would open up approximately 28 acres in a prime location. Sale of this property could generate substantial proceeds to be used toward the Arena construction and thereby reduce the amount needed from taxpayers.

To reiterate, the Sports and Exhibition Authority's arena financing plan for a new indoor multi-purpose sports facility relies too heavily on taxpayer funding and not enough on facility generated revenues. Their assumption that a large percentage of the funding will come from state taxpayers and the RAD doesn't hold up under careful scrutiny.

The Allegheny Institute plan minimizes the use of public funds and is based on the premise that those who use and benefit from the facility should pay for it. But as SEA chief executive Steve Leeper said before he began his press conference: "Here we go again".

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Reminder, the next installment of the Allegheny Institute Report airs August 5th at 77:00p.m. on 1410 KQV. The topic will be the problems facing the Pittsburgh City School District.

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