POLICY BRIEF

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Taxpayers Need to Hold On to Their Wallets

Once again the Pittsburgh Penguins are threatening to move if they don't get a new arena soon. The team wants taxpayers to cough up the money (now an estimated $278 million) to build the arena, but local governments are financially embarrassed at the moment. There really is no money unless the County decides to divert spending from currently funded items or raise taxes. The City is in distressed status and the County eliminated 500 positions in 2004. Even the Governor's office is quick to point out that even though money is earmarked, it is not currently available. With the team's lease for the Mellon Arena up in 2007, the team is pressuring elected officials to find the money. Will lawmakers cave, or will the Penguins march away?

Chief Executive Onorato has pledged to find a way to build an arena. He also says, "It will take a lot of different funding sources to get this built, just like other cities have done." Taxpayers should view such pledges warily. Past experience with stadiums shows the vulnerability of taxpayers when officials vow to build sports facilities.

As we have argued for years, any arena needs to be built privately. There are private funding alternatives that have been used in other cities, and could be used here. If an arena would see the level of year-round use that local and team officials claim, then it should be a great investment opportunity for investors, perhaps a large local corporation. Indeed, the ability of the facility to generate large amounts of non-hockey revenue should make it a strong candidate for private funding.

One of the newest arenas was built in Columbus, Ohio for the NHL Blue Jackets. The arena, which opened in 2000, was constructed almost exclusively with private funds as Nationwide Insurance and the Dispatch Printing Company paid the entire sum while receiving only infrastructure aid from the city and county. The Wachovia Center in Philadelphia was privately built with loans and contributions from Spectator (now ComcastSpectacor).

One arena that fits the profile offered by the Chief Executive is the Pepsi Center in Denver, home of the Avalanche. The owner of the Pepsi Center, Ascent Arena Company, LLC, used a variety of funding sources: private sponsorships, indirect public subsidies (property tax breaks and tax rebates), and bonds floated against revenues from luxury suite sales and food concessions. Local companies such as Coors sponsored the Pepsi Center's amenities such as an amphitheater and conference center while Conoco sponsored service stations on the property. Any arena for the Penguins will almost certainly include amenities such as restaurants, retail space, and even meeting space that could provide rental income to meet bond payments.

Revenue bonds have been an increasingly popular tool for financing sports facilities. Not only have they been used at Denver's Pepsi Center, but they have also been used to finance arenas for the NHL's Atlanta Thrashers and NBA Miami Heat and a stadium in New England. We previously promoted this concept in a 2002 report, *Private Financing for a New Penguins Arena.* The team dismissed the idea out of hand. However, the idea of using a portion of revenue streams from operations to retire arena related debt was incorporated into a Sports and Exhibition Authority plan—a plan that the Penguins also denounced.

But let's cut to the chase. Hockey is a sport with a very limited, albeit dedicated, following as evidenced by the very small television revenue compared to other sports. By right, taxpayers should never be forced to subsidize professional sports. To ask them to subsidize a sport of such limited appeal is even more egregious. The claims that the Penguins are needed to promote economic development and that the loss of the team would cause a loss of jobs in Pittsburgh are fatuous at best. The team has been here for almost 40 years. Have they prevented the City from experiencing population losses in the hundreds of thousands? Obviously not.

Those who continue to trot out the economic development argument as a reason to subsidize the Penguins need to offer some evidence that it has worked here or other cities. There simply is no credible evidence from around the country that a region benefits economically from subsidized professional sports facilities.

So, for those who want to build a new arena to keep the Penguins, we suggest another financing method. Sell nonvoting shares in the team or in the new arena. There is precedent. The Green Bay Packers and Boston Celtics are publicly held corporations. Selling shares would allow serious fans and others who believe that having a team is important to the City to show their support and loyalty. The team could sell shares to the public, regionally and across the nation.

At a minimum, the team should offer one million shares at a $100 per share. If the team cannot raise $50 million through this process, it would reveal a clear lack of broad based support. Elites in the political and civic communities should not be permitted to impose costs on taxpayers when private investors are not willing to ante up to pay for a multi-use arena.

Those close to the team say that they are not bluffing. They say it's a fact that when the lease at the Mellon Arena expires, the team will be free to move and will do so if plans for a new arena have not been finalized. Well it's also a fact that taxpayers are tapped out. If a new facility is to be built, the bulk of the costs will have to fall on private sector shoulders. Taxpayers have been forced to subsidize everything from stadiums to defunct department stores to multi-million dollar companies. It is time to stop this expensive, ineffective kowtowing to special interests.

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