

POLICY BRIEF

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A Much Better Plan B

Here we go again, another Plan B. The Governor is now urging Mayor O'Connor and Chief Executive Dan Onorato to craft a new arena plan that would be similar to the Plan B used to finance two stadiums in Pittsburgh. Evidently, the Governor is not as confident as the Penguins that their partner, the Isle of Capri, will win the City's only slots license and then ante up \$290 million to pay for a new arena.

According to the Governor "we can come up with a package creatively that does for the Penguins the same thing that was done for the Steelers, (and) the Pirates ...". For those with short memories, that package called for massive public subsidies including \$13.4 million annually in RAD funds to pay off debt incurred to build the new stadiums along with \$300 million in state funding and millions in federal dollars for street and road rerouting.

The Governor says that the creative package will include tax dollars and money from arena based funding streams such as naming rights and proceeds from permanent seat licenses. Which tax dollars is the Governor alluding to? The RAD tax is fully accounted for and even if the current annual allotment for the Mellon Arena (\$3.2 million) were to be transferred to a new facility, it would still be well short of the amount needed.

Does the Governor intend to ask for an increase in the car rental tax or hotel tax as was done in other cities? The City and County would need permission from the state Legislature to raise either rate. An attempt to increase the car rental tax to fund the operating deficit of the new convention center was defeated. Moreover, the hotel tax is already at a very high seven percent. These do not appear to be viable options.

What tax revenues could the City and County spare? Even though the City had a surplus in the last fiscal year, they are still under state oversight and remain financially distressed. The County Executive described this year's budget as "very tight". Neither government has money to spend on a new arena. And it is very unlikely the legislature will approve a large quantity of state tax dollars when all private funding options have yet to be explored.

Instead of promoting a Plan B involving huge amounts of tax dollars that are not available now or in the foreseeable future, the Governor should be pointing to the relatively new arena in Philadelphia that was financed mostly with private funds. He could also point to several cities including Columbus and Denver where innovative private financing arrangements have been used to fund year round, multiuse facilities. This is not rocket science; it can be done.

Here's a better plan. The Penguins or a developer should create an Arena Corporation or a Partnership and sell shares or find investment partners. The group could then sell naming rights to a local corporation such as Mellon Financial, Citizens Bank, etc. The goal should be \$100 million

to \$150 million. At that point the group could borrow against seat license sales, long-term luxury box rentals, concessions revenue, in-arena advertising, rental fees for events at the new arena, etc. to raise the rest of the needed funding. Or, alternatively, a deep-pocketed investor could simply build the arena and keep all or most of the revenues generated at the arena, depending on the terms of a lease agreement with the Penguins.

If the City and County want to help, they could offer the Arena Corporation or Partnership tax abatements for a few years to cushion the impact of the high property taxes in the City.

And what happens to the Isle of Capri's offer to turn over \$290 million for a new arena? They can simply amend the proposal presented to the Gaming Board. Instead of the money being designated for a new arena, the \$290 million would be turned over to the Intergovernmental Cooperation Authority (the oversight board) to be held in escrow for City debt reduction and for no other purpose. The ICA would have to ensure that other spending does not expand to consume the savings and that the savings are used exclusively for tax reductions.

Properly invested, this money could lower the City's \$90 million annual debt payments by nearly half for 8 to 10 years, giving the City ample room to cut its onerous taxes, especially the property, parking, and the payroll preparation tax. Lowering taxes and controlling spending are absolute musts if the City is to thrive. Under a regime of strict spending controls over the next few years, the tax cuts could help promote private sector growth with increasing jobs, income and tax base.

Surely, such a tremendous immediate, positive fiscal impact on a city hosting a casino would sit very well with the Gaming Board as they try to weigh the community benefits of the various applications. This would be straightforward; no waiting for development to occur and hoping that it pays off as advertised. The Gaming Board could stipulate that the money would be delivered to the ICA within 10 days of the license being granted or the license would be revoked.

Of course, this plan requires some effort on the part of the Penguins, assuming they really want to stay in Pittsburgh. And, it will need corporate and civic leaders to get behind the development of a privately funded arena.

The best part of the plan is that the City gets enormous tax relief immediately if the Isle of Capri wins the license. And, under this plan the Gaming Board would find it difficult to justify not awarding the Pittsburgh license to the Isle of Capri. Further, it should not matter to the Isle of Capri where the money goes, since the \$290 million was to be a free and clear gift anyway.

There are two crucial elements involved here. One, multiuse, year-round arenas can pay for themselves and therefore should be built with private funds. Two, Pittsburgh desperately needs substantial debt and tax relief. This ought to be a no-brainer.

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