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Penguins Should Not Skate Away from Plan B

Since the Isle of Capri failed to secure the City's sole gaming license, the Penguins are stuck with Plan B. But how "stuck" are they? Plan B, put together by the Governor and County Executive, pledges $7.5 million per year of gaming money from the Pittsburgh slots parlor as well as another $7 million from the state's gaming proceeds—for a total of $14.5 million in gambling money. The team's contribution would be limited to an $8.5 million up front payment, $1.1 million in forgone arena naming rights and a $2.9 million annual contribution—terms similar to what the Pirates had for PNC Park. But the Penguins ownership is not happy with this deal and has threatened to leave town.

As we have pointed out, and as experts around the country are now saying, Plan B with the Penguins as principal tenant is a "sweet deal" for the team's owners. Revenues from concessions and advertising, rents from new luxury boxes, and revenue from the many non-hockey events along with associated parking fees could easily be as much as $20 million per year, more than enough to cover the team's modest contribution to the arena.

Nonetheless the team is threatening to move to Kansas City, Missouri. How serious is this threat? While Kansas City boasts a larger population than Pittsburgh (444,000 vs. 316,000), the population of the metro area is much less (1.9 million vs. 2.3 million). Since NHL teams do not have national TV revenues to share, they must rely on ticket sales, related game revenues, and local television money. Bear in mind that Kansas City has the 31st largest television market, while Pittsburgh is 22nd. And, ticket sales in Kansas City are problematic. The area has not demonstrated significant support for hockey in the past as evidenced by the fact that the NHL's Kansas City Scouts lasted only two years. In contrast, Pittsburgh has a very loyal Pens following and ticket buyers.

Kansas City does have a new arena which is scheduled to open in the fall of 2007. Built for $276 million with two-thirds coming from public sources, it seats 18,500. While they don't boast a major league hockey or basketball team, Kansas City has hosted both at one time. The new facility will be home to an arena football team as well as a minor league hockey franchise and as many as four minor league basketball teams—the assertion that it is "empty" rings hollow.

All things considered, it would appear the Pens' best option for optimizing revenues is to stay in Pittsburgh with Plan B.

And even though this is the best deal for the Pens it is clearly not the best deal for the public. Gaming money will make up the large majority of the annual payments. Is a new arena the best use of these funds? The $14.5 million could be better used for further tax reductions, or to improve the City's and County's financial situation.

Moreover, the use of the dollars from gaming could present problems for bond issuance. Undoubtedly investors will want more security than a pledge of thirty years worth of revenues derived from gaming. In all likelihood the Sports and Exhibition Authority will have to guarantee the bonds with revenues generated from the arena.

Taking all this into account, it would appear to be in the Pens interest to sign on to Plan B as it currently stands. And as a final note, where is the NHL commissioner who was so adamant about keeping the team in Pittsburgh when it looked like the team was being sold last month. Where is his commitment to the Penguins' fans now?

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