POLICY BRIEF

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Pens Arena Deal: Could Have Been Much Better

Government officials and hockey fans are celebrating an arena deal that is designed to keep the Penguins in Pittsburgh for the next thirty years. However, that jubilation cannot hide the fact that the details of the agreement create serious concerns for taxpayers.

The first concern is that the Sports and Exhibition Authority (SEA) will pay the team $8.5 million for the former St. Francis Hospital site. The team bought the site in anticipation of a new arena and it was to count as their up-front contribution to the project. Now they will receive its value in cash. As noted in the Governor's press release, "the source of the $8.5M will be from bond proceeds over and above the $290M…" Since the SEA is a joint city-county authority, who will be responsible for the repayment of this bond? Unfortunately, because the agreement also stipulates that "the Penguins…shall retain all revenues generated from all events at the new arena", it is clear that the SEA will not be able to use arena generated revenues to retire this debt.

Where will the SEA get the money? RAD dollars seem to be the likely source. If so, the pledge of no local tax dollars is out the window. Alternatively, the Commonwealth will just divert more gaming taxes. Either way, taxpayers will be on the hook.

Another area of concern is the agreement calling for the state and the team to split any project costs above $290 million up to $310 million. This could add as much as $10 million more to the burden of state taxpayers. It is not specified where the funds to pay this extra money will originate.

Furthermore, the state has agreed to "fund marketing expenses incurred by the Penguins in promoting the Team…" This marketing expense is in the form of a $2 million lump sum payment. Where this additional $2 million will come from is also a mystery. And this does seem to be a very curious and overly generous contribution in light of the fact that the Penguins are selling out games and have the best advertising a franchise can get, namely, an exciting, winning team. How much marketing of a new arena or the team can possibly be needed in a town that by all accounts is one of the best hockey supporting towns in the country? Simply put it is not the taxpayers' responsibility to pay for marketing. The $2 million grant amounts to nothing more than a gift.

And finally, the development rights arrangement between the SEA and the team is beyond the pale. According to the agreement term sheet, "the Penguins shall have development rights to the entire Mellon Arena site…" Not only do they have these rights, but the SEA will compensate them with $15 million in what is called a redevelopment credit. It appears the team will be able to buy parcels of land at an appraised value using this $15 million. In essence, the team will get the first $15 million worth of prime Pittsburgh real estate for free. But, if they do not use all of the credits within ten years, the team will receive the remaining balance in cash, courtesy of the SEA.

Instead, the old arena property and development rights to it should have been auctioned to the highest bidder. The proceeds could have been used to lower taxes or set aside in a reserve fund to help the City and County with debt retirement.

While no local tax funds were used in constructing the arena deal—the state's share is based on a tax on gaming revenues—it could have been done with private and arena generated funds. In fact, that is how the Penguins were able to add another $400,000 per year for capital reserves. They will put a surcharge on parking and use it to cover the fund—it will not come directly from their pockets. And since they control all revenues the new facility generates, they will have no difficulty in meeting their $3.6 million annual payment.

This demonstrates how the arena funding should have been structured in the first place—private investment and arena revenue bonds. The $7.5 million annual payment from the Pittsburgh casino licensee, Don Barden, is a first step in securing private money. Other private investors could have put up another $4 to $5 million per year, either through the selling of naming rights or in an agreement to a share of non-hockey event profits. The rest of the money needed could have easily been generated through bonds backed by arena revenues. The SEA could have pledged revenue streams from concession sales, in-house advertising, pouring rights, seat licenses, and even a ticket surcharge. These could have provided enough financing, roughly $8 million annually, to cover the necessary bond issues. A guiding principle should be that if a multi-purpose arena can not generate enough money to pay for itself, then it should not be built in the first place.

While the agreed upon arena deal may be good for the Penguins' owners, who stand to make a lot of money as the team's value rises, and politicians, who can get fans off their backs, it is not the best deal for the people of Pennsylvania.

Unfortunately, the inferior deal is done because of the unwillingness of officials to look for more private sector involvement in order to eliminate the need for any tax dollars in its construction. After all, because the $300 million arena will be owned by an authority, it will not pay city, school, and county property taxes of almost $9 million per year.

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