Private Stadium Financing Sources: Options for the Pirates and Steelers

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Key Findings

The overwhelming defeat of the Regional Renaissance Initiative in Southwestern Pennsylvania, coupled with the recent rejection of taxpayer-funded stadium proposals in Columbus and Minneapolis, has sent a clear message to major league sports franchises: If you want new facilities, find ways to raise the money privately. Therefore, any further discussion of new facilities for the Pirates and Steelers should focus on private sector alternatives.

There are a number of proven, successful methods of generating private stadium investment available to the Pirates and Steelers. In cities across the country, teams have used a combination of private sources to build baseball and football stadiums that have increased teams' profitability and competitiveness. The following report examines these options and attempts to estimate, based on the experiences of other cities and the unique characteristics of the Pittsburgh market, the amounts of construction financing the Pirates and Steelers could raise from each source—about $200 million in total for each team. The paper's key findings include the following:

- Permanent seat licenses (PSLs) have been used successfully in new football markets (Charlotte, Nashville, Baltimore) and existing NFL cities (Cincinnati, Cleveland) to generate between $20 and $105 million in construction financing. PSLs give the holder the lifetime right and obligation to buy season tickets, as well as the ability to sell the license in the future, and help to give purchasers a sense of ownership and pride in a new facility.
- The San Francisco Giants are pioneering the use of permanent seat licenses in baseball with the construction of their new Pacific Bell Park—the first privately financed major league baseball stadium since the 1960s. The Giants began sales of 15,000 "charter seats" earlier this year, hoping to raise $40 million. As of the stadium's December 11, 1997 groundbreaking, 12,000 licenses (raising $50 million) had been sold.
- Facility "naming rights" have become a popular and lucrative source of stadium funding in the decade of the 1990s. 49 major league stadiums and arenas have taken on corporate names for terms of four to 40 years. The average yearly payment for naming rights to a new major league football or baseball stadium tends to fall in the $1.5-$2.5 million range.
- A portion of the revenue generated from in-stadium advertising, concessions and "pouring" rights can also be devoted to construction. Pepsi has signed exclusive pouring rights deals with the stadiums of the Dallas Cowboys, New England Patriots, Arizona Diamondbacks (15 years, $40-45 million), and Seattle Mariners. Coca-Cola is also an active player. Industry analysts report that major league sports franchises expect to earn $5-7 million per year in facility advertising—nearly three times the amount of three years ago.
- The main reason teams want new facilities is so they can have sole control of unshared "venue" revenues, especially the fees for luxury boxes and club seats. These premium seats can also be sold in advance and a portion of those revenues used for construction.
- Both teams could form stadium corporations, modeled on the Green Bay Packers' recent offering of 400,000 shares at $200 each (for the expressed purpose of making future facility improvements), and sell shares to fans in Southwestern Pennsylvania and across the country.
- In order to allow both teams to obtain their own facilities and retire the existing debt on Three Rivers Stadium, we recommend that one franchise create a corporation, which would sell shares to the public and use the other private financing options available to build a new stadium. After that franchise leaves for the new facility, Three Rivers could be transferred to the other franchise, at a price negotiated by that franchise with the City of Pittsburgh and the Stadium Authority. The franchise playing in Three Rivers would have all rights to stadium revenue and be responsible for all subsequent renovations, improvements and operating costs. Finally, the existing Regional Asset District allocation for Three Rivers Stadium would be used to retire its $40+ million debt and cease upon the retirement of that debt, and any state contribution could fund necessary land and infrastructure improvements.

Introduction

During the campaign for the Regional Renaissance Initiative "stadium tax" referendum, its proponents claimed, despite evidence to the contrary, that private financing of sports facilities is not a viable option for Pittsburgh. They also predicted that if the tax did not pass, the Pirates and Steelers would leave the region for another city that would build them a stadium. The Initiative was defeated overwhelmingly at the polls, and the voters' message to the teams is clear: Private businesses—including sports teams—should be responsible for building their own new facilities.

The crushing defeat of the Regional Renaissance Initiative may be a turning point in stadium financing for the rest of the United States. Voters in Minneapolis sent a similar message to the owners of the Minnesota Twins by passing a referendum requiring voter approval before the city can ever spend more than $10 million in taxpayer money on new sports facilities. Within a week of that vote, the Minnesota legislature defied Twins owner Carl Pohlad's threat to sell to a buyer who would move the team to North Carolina and soundly thrashed a plan to build the team a new $404 million facility. Combined with the May defeat of a Columbus-area sales tax referendum for a hockey arena and soccer stadium (and subsequent announcement that the arena would be built with private money), the national momentum is now in favor of private stadium funding.

...THERE ARE A NUMBER OF PROVEN, SUCCESSFUL METHODS OF GENERATING PRIVATE INVESTMENT IN NEW BASEBALL AND FOOTBALL STADIUMS...THE PIRATES AND STEELERS HAVE THE POTENTIAL TO RAISE ENOUGH MONEY FROM PRIVATE INVESTORS TO ALLOW THEM TO BUILD THE NEW FACILITIES THEY WANT (OR TO BUILD ONE NEW FACILITY AND RENOVATE THREE RIVERS STADIUM).

Local public officials and others in the Southwestern Pennsylvania community have floated many stadium financing ideas since the sales tax defeat, and some of those proposals would involve the use of other tax revenues. However, it is clear that using tax dollars to fund new stadiums in Pittsburgh will not meet with taxpayer approval, and therefore the scope of any new inquiry into stadium funding should focus on private sector alternatives.

In fact, there are a number of proven, successful methods of generating private investment in new baseball and football stadiums that have allowed teams to remain in their home cities and increase their profitability and competitiveness. While some refuse to acknowledge that 100 percent private financing of stadiums is not only possible in theory but already done in reality, we believe that the Pirates and Steelers have the potential to raise enough money from private investors to allow them to build the new facilities they want (or to build one new facility and renovate Three Rivers Stadium). Under such plans, the government's role would be restricted to the provision of legitimate infrastructure like roads, streets, and water and sewer facilities—infrastructure provided by government to all businesses. Land for the stadiums can be secured privately, or it can be purchased by government and then rented or repaid from future taxes by the team.

This report examines the private financing alternatives used for other stadiums across the country and attempts to estimate, based on those experiences and the unique characteristics of the Pittsburgh market, how much money the Pirates and Steelers could generate from each source. For those interested primarily in reviewing our recommendations, see pages 21-23.

Permanent Seat Licenses

Permanent seat licenses (PSLs) are agreements between sports franchises and individual ticket holders that give the buyer the right and the obligation to purchase season tickets in a particular facility for as long as the team plays in the facility in question. PSLs are an extension of a practice long used by college athletic programs, under which the most generous donors receive the best seats. PSL revenue has become an important source of private stadium funding for National Football League teams, and franchises in other sports are beginning to make use of the concept.

PERMANENT SEAT LICENSES (PSLS) ARE AGREEMENTS BETWEEN SPORTS FRANCHISES AND INDIVIDUAL TICKET HOLDERS THAT GIVE THE BUYER THE RIGHT AND THE OBLIGATION TO PURCHASE SEASON TICKETS IN A PARTICULAR FACILITY FOR AS LONG AS THE TEAM PLAYS IN THE FACILITY IN QUESTION. PSLS ARE AN EXTENSION OF A PRACTICE LONG USED BY COLLEGE ATHLETIC PROGRAMS, UNDER WHICH THE MOST GENEROUS DONORS RECEIVE THE BEST SEATS.

In the cities where PSLs have been used, intensive marketing campaigns have introduced the concept to the public. The campaigns generally appeal to the pride that fans have in their team and sell them on having the opportunity to be an "owner" of the stadium that their contribution will help to build. PSL programs have been conducted as lotteries in order to ensure fairness in the distribution of seats. In order to apply to participate in the PSL lottery, fans are required to put down a minimum deposit equal to, say, 25 % of the PSL's cost. The applications also include the fan's choice of seat location and one or more backup choices (in case there are no seats available in the preferred location). If none of the chosen seats are available, the applicant has the choice of accepting a refund of his deposit, choosing seats in another location of the stadium, or getting onto a waiting list for his preferred seats.[i]

Once the applicant is accepted and the seats are sold, the holder of the license must then purchase season tickets for his chosen seats for the coming season. He must do so for all subsequent seasons or forfeit the license back to the team, which can then re-sell it. License transfers between individuals are permitted, but the team may restrict such transactions by imposing waiting periods, charging fees, or allowing itself a "right of refusal" before a transfer is approved (in order to keep speculators from distorting PSL demand by purchasing large blocs of the licenses).[ii]

Many PSLs are purchased "out of pocket", but banks have approved loans for PSL buyers on both a "lump sum" and an installment basis. The Carolina Panthers' PSL marketing campaign went so far as to suggest that fans use their home equity to underwrite their PSL purchase, saying "Let the IRS help pay your PSL deposit" through the federal home mortgage interest deduction.[iii]

Most PSLs sell very early in the marketing campaign—in fact, the bulk of them are sold on the first day they are made available, and then sales fall rapidly. In some cases, such as Charlotte and Oakland, the most and least expensive PSLs were the first to sell out. Medium-priced seats have tended to sell the most slowly, especially when there were large gaps in price between what buyers perceived to be seats of equal quality.[iv]

PSLs: The NFL Experience

In the 1990s, six NFL cities have already used permanent seat licenses to generate private financing for new or improved stadiums. Of the six, only the Oakland

Raiders have failed to generate the revenue projected by marketers, and that was due mainly to the fact that the Oakland licenses were only for 10-year terms. If presented with a campaign tailored to the specific characteristics of the market in question, PSL programs can succeed even in established markets.

The pioneers of the concept, however, were the Dallas Cowboys, who used a form of seat licensing in order to build Texas Stadium in the late 1960s. Cowboys owner Clint Murchison, in addition to using his own money for construction, required that all fans buying tickets between the 35-yard lines in the new facility also purchase bonds, which would be used as an additional stadium financing source.[v] That enabled the Cowboys to build a completely privately financed stadium that has served them very well for twenty-six years. The following are overviews of the PSL experience in cities where programs have been put into place.

RICHARDSON'S PLAN WAS TO BUILD A PRIVATELY FINANCED STADIUM IN CHARLOTTE... FEW PEOPLE BELIEVED THAT HE COULD DO IT... HUGH MCCOLL, JR., THE CEO OF NATIONSBANK, PUT THAT SPECULATION TO REST WHEN HE SAID, "THESE FUNDS WILL BE RAISED PRIVATELY—PERIOD. LET'S NOT CREATE A TEMPEST IN A TEAPOT. WE DO NOT HAVE A PROBLEM WE CANNOT SOLVE. YOU CAN WRITE THAT DOWN."

Charlotte

In the late 1980s, Jerry Richardson, a former wide receiver for the Baltimore Colts and chairman of Flagstar Companies (which operate Denny's, Hardees, Quincy's Steak Houses, and El Pollo Loco), began the process of trying to obtain an NFL expansion team for the Carolinas. Richardson's plan was to build a privately financed stadium in Charlotte in order to take advantage of the 5-million-plus potential fans in the surrounding region. Few people believed that he could do it. But Richardson's banker, Hugh McColl, Jr., the CEO of NationsBank, put that speculation to rest when he said, "These funds will be raised privately—period. Let's not create a tempest in a teapot. We do not have a problem we cannot solve. You can write that down."[vi]

With the help of sports marketer Max Muhleman, who has since established a reputation as the "guru" of permanent seat licenses, Richardson began his pitch to the people of the Carolinas. The campaign emphasized the opportunity to do something of lasting significance for their home region to potential PSL buyers. It also stressed the fact that the stadium—and the team—would not materialize without the private financing PSLs would provide.

The Charlotte PSLs ranged in cost from $600 to $5400 for regular seats. Club seats were also licensed at a cost of $2475 to $4475 per seat (including the license). On the first day of PSL sales—July 1, 1993—Richardson's group took $102 million worth of orders. The final sales total was $170 million—after taxes, there was $105 million left to spend on construction. The rest of the $187 million construction cost of the new stadium was raised through a loan from NationsBank and the sale of the facility naming rights.[vii] In October of 1993, the NFL awarded an expansion franchise to Charlotte—and it would not have done so without the PSL commitments of the team's future fans. To date, 61,000 seat licenses have been sold—and a secondary market for the licenses is growing, as holders have begun a second round of sales to fans who want the ownership privileges and sense of pride that PSLs bring. That pride is most evident on the Panther statue outside the stadium, which bears 22,000 names—the names of the original PSL buyers who helped to bring the NFL to the Carolinas.

Nashville

In late 1995, the Houston Oilers signed a relocation agreement with the City of Nashville, Tennessee, the main portion of which included a financing plan for the construction of a new $292 million football-only stadium. About 75 % of the stadium's funding was to come from the City and the state of Tennessee, and the remainder was to be generated by a PSL campaign. TENNFL, the group coordinating the Oilers' relocation, ran a program that marketed regular PSLs at prices ranging from $250 each for upper-deck end zone seats to $4500 each for seats between the 30-yard lines. It also sold $1500 six- and ten-year licenses to the stadium's 13,000 club seats—those seats also require an annual fee, in addition to the cost of a season ticket.

By February of 1996, about $61 million worth of PSLs had been sold—about $10 million short of the marketers' goal. In response, in May 1996 21 Nashville-area banks and corporations guaranteed that the remaining 15,000 licenses would be sold within 90 days of the Oilers' first home game in the new stadium.[viii]

Cincinnati

In March of 1996, Hamilton County, Ohio voters approved a one-half of one-percent additional sales to finance new stadiums for the Cincinnati Reds and Bengals. Since that time, the deal has run into its share of problems, namely huge cost overruns that have spawned T-shirts and bumper stickers that read "Shoot Me! I Voted For the Stadium Tax!" However, Cincinnati can point to at least one success in its exercise in new stadium construction—its PSL program.

Part of the agreement for the new Bengals stadium stated that if Hamilton County could not sell $20 million worth of seat licenses by April 1997 at an average price of $500, the county would have the right to renegotiate the deal for public financing. The Cincinnati PSL campaign played heavily upon the idea that fans who bought the licenses were really receiving a share of "ownership" in the new stadium. To that end, the PSLs were called Charter Ownership Agreements (COAs)—and the Bengals sold $26.5 million worth of the licenses, which cost from $150 to $1500 each.[ix]

THE CINCINNATI PSL CAMPAIGN PLAYED HEAVILY UPON THE IDEA THAT FANS WHO BOUGHT THE LICENSES WERE REALLY RECEIVING A SHARE OF "OWNERSHIP" IN THE NEW STADIUM. TO THAT END, THE PSLS WERE CALLED CHARTER OWNERSHIP AGREEMENTS (COAS)—AND THE BENGALS SOLD $26.5 MILLION WORTH OF THE LICENSES, WHICH COST FROM $150 TO $1500 EACH.

Since the Bengals already play in an established market where existing ticket holders feel that they already "own their seats", there was some concern that their season ticket base would decline. It did fall somewhat—from 45,000 current season ticket holders to 35,000 seats committed in the new stadium—but the Bengals have also sold 6200 new club seats and 2700 seats in luxury boxes—meaning that about 43,000 seats are already filled in their new home.[x]

Baltimore

In their first season (1996) after moving from Cleveland, the new Ravens franchise played to sellout crowds in the city's Memorial Stadium, but the team's management knew that it would need to plan for future ticket sales in their new stadium—which would include PSL sales. First, they asked their new season ticket holders for an additional $100 deposit, which would give them PSL priority. Then, the Ravens surveyed their new fans about what an ideal PSL program would look like, including price and ticket purchasing requirements. They found that a big concern among potential PSL buyers was that if a fan did buy a license, they would also have to pay higher regular ticket prices as well. The team's marketing consultant (Max Muhleman) also cautioned the Ravens against trying to sell a large number of high-priced PSLs in a "blue-collar" town like Baltimore.[xi]

From these discussions, the Ravens ultimately offered a PSL program that a) keeps ticket prices steady from now to the opening of the new stadium through the end of the century and b) has more low-priced PSLs available. With a program offering seat licenses priced from $250 to $3000 for regular tickets and club seats licensed at $1000 each, the Ravens expect to raise between $65 and $70 million. To date, they have sold 53,000 seat licenses and 6800 club seats.[xii] This revenue will not be used for stadium construction, as the bulk of that money will come from public sources, but the lessons from the program's structuring process can be applied to a PSL program devoted to construction financing.

Cleveland

When Art Modell took the old Browns franchise to Baltimore for the 1996 season, the City of Cleveland was able to get the NFL to guarantee it an existing or expansion team by 1999, provided that a new football-only stadium was in place by that date. Part of the stadium financing will be provided by PSL sales. Here, marketers faced the challenge of selling to a "blue-collar" area with a large existing ticket base. Their solution was to take the Cincinnati base prices of $150-$1500 per PSL and then offer existing ticket holders discounts based upon how long they had held season tickets with the old Browns.[xiii] The scale used in Cleveland is shown below:

Years Held Tickets	% Discount on PSL
1-3	10
4-6	15
7-9	20
10-19	30
20-29	40
30+	50

...THE CITY OF CLEVELAND... FACED THE CHALLENGE OF SELLING TO A "BLUE-COLLAR" AREA WITH A LARGE EXISTING TICKET BASE. THEIR SOLUTION WAS TO TAKE THE CINCINNATI BASE PRICES OF $150-$1500 PER PSL AND THEN OFFER EXISTING TICKET HOLDERS DISCOUNTS BASED UPON HOW LONG THEY HAD HELD SEASON TICKETS WITH THE OLD BROWNS.

When the first group of Browns' season ticket holders (those who had held their tickets for 30 or more years) got the opportunity to buy season tickets at the discount price, 99.4 percent of the existing season ticket accounts renewed 96.1 of their seats. It was expected that other groups of ticket holders would exhibit similar retention rates. So far, from the old Browns' season ticket base, the PSL marketers have raised $20 million toward the new Cleveland stadium, which will be ready in time for the 1999 season.[xiv]

Oakland

The Raiders' 1995 return to their original home was beset with a number of problems, but some of the worst fiascoes involved its PSL marketing program. The Oakland experience provides a definitive lesson in how NOT to sell seat licenses.

As part of the deal between the City of Oakland, Alameda County and the Raiders, the city and county were obligated to float $198 to $225 million worth of bonds to renovate the Oakland-Alameda County Coliseum and pay the Raiders' relocation costs. The bulk of that money was to be repaid from personal—not permanent—

seat licenses and ticket sales. Instead of selling lifetime rights to buy season tickets, the government-run Oakland Football Marketing Association (OFMA) sold 10-year licenses and told fans that they couldn't buy tickets without them. The results were predictably terrible.

OFMA projected that 45,000 personal seat licenses would be sold, at costs ranging from $250 to $4000, for the right to buy tickets priced at an NFL-high $41 to $61 per seat. The problems began as soon as the phone lines opened—or didn't open. The phone system set up to handle the orders malfunctioned early in the campaign. Later, OFMA officials declared that the licenses had sold out—and later had to admit that thousands of seats remained. As the end of the 1995 season neared, about 39,000 of the 62,500 licenses—about 6000 short of the number needed for the stadium renovation to break even and about 10,000 fewer than anticipated by OFMA—had been sold. Coliseum club seat and luxury box sales also lagged far behind projections. City and county taxpayers found that they would have make up a projected $15 to $20 million shortfall in project financing. By November 1997, city and county officials estimated that the agreement with the Raiders could cost taxpayers as much as $415 million. In late 1996, an Alameda County grand jury even went so far as to investigate the Coliseum deal. Although no indictments were returned, the entire episode has been an embarrassment for all parties involved.[xv]

Pacific Bell Park: Major League Baseball Enters the PSL Market

The recent trend in Major League Baseball stadium construction has been to involve the public sector in financing the vast majority of the project's costs. Teams have been able to get their home communities to impose additional sales and use taxes, as well as commit existing tax revenue, to furnish the franchises with new, state-of-the-art stadiums and facility leases that allow the owners to keep most, if not all, of the revenue that they produce. One of the teams that tried to go the tax-hike route was the San Francisco Giants. On four separate occasions in the late 1980s and early 1990s, the Giants tried to persuade local voters to use tax dollars to build them a stadium to replace old, cold and windy Candlestick Park. Four times they were rebuffed. The team was on the verge of moving to the Tampa-St. Petersburg area in 1992 when an investment group led by Safeway chairman Peter Magowan purchased the team and kept it in San Francisco.

ON FOUR SEPARATE OCCASIONS IN THE LATE 1980S AND EARLY 1990S, THE GIANTS TRIED TO PERSUADE LOCAL VOTERS TO USE TAX DOLLARS TO BUILD THEM A STADIUM … FOUR TIMES THEY WERE REBUFFED… SO THEY TOOK A DIFFERENT TACK: THEY DECIDED TO BUILD THE FIRST TOTALLY PRIVATELY FINANCED BASEBALL STADIUM SINCE THE CONSTRUCTION OF DODGER STADIUM AND BUSCH STADIUM IN THE 1960S.

Magowan and his associates also wanted a new stadium, but they knew that they had virtually no chance of obtaining taxpayer funding. So they took a different tack: They decided to build the first totally privately financed baseball stadium since the construction of Dodger Stadium and Busch Stadium in the 1960s. To obtain the funding, the Giants put together a private sector partnership of local corporations, banks, and their fans, which raised $262 million for construction. When another referendum—this one involving changing some downtown zoning and land-use regulations to permit construction on a tract of city land—was put on the November 1996 ballot, it passed overwhelmingly.

A large chunk of the stadium's financing will come from the sale of its naming rights to Pacific Bell Corporation and a $145 million loan from a syndicate arranged by Chase Manhattan Bank. But $40 million will come from the sale of personal seat licenses—called "charter seats" in the Giants' marketing lexicon. The 15,000 best seats in the 42,000-seat park are being offered as charter seats, first to season ticket holders and then to new applicants, as a way to be a part of continuing and building upon the history and tradition of the Giants' franchise.[xvi]

The Giants are offering the charter seats in six categories, which are variably priced to allow fans to take advantage of the best seat locations. Seat locations are assigned in the order in which each application (and corresponding $200 per seat deposit) are received. Once individual seat locations are assigned by the team and accepted by the applicant, the license holder must sign the "charter seat license agreement", pay 25 percent of the license price, and then pay the remaining 75 percent in three installments, beginning in 1997. For "Field Club" and "Club" seats, purchasers are required to sign multi-year, renewable agreements that must include tickets, other services and amenities, and price protection of the license (meaning that you continue to capture any value that may accrue to the license in future years).

As with the PSLs discussed in the NFL examples, the Giants' charter seats remain with the holder as long as he continues to purchase season tickets each year. After Pacific Bell Park opens (in 2000), charter seat owners can sell or transfer the seat rights once per year. Of the six classes of charter seats, four classes (the three most expensive and the least expensive) are already sold out. The licenses cost $7500, $6000, $5500, $4500, $3000, and $1500 per seat over a three-year term (season tickets are an additional cost).[xvii] The Giants have even explored ways to allow partial-season ticket holders to team up to buy the license to a seat. By the end of 1996, 10,000 of the 15,000 charter seats had been sold, and $30 million of the projected $40 million had been raised toward the stadium's construction. As of Pacific Bell Park's December 11, 1997 groundbreaking, over 12,000 charter seats had been sold—and ***$50 million*** had been raised for construction.[xviii] "It can be done," says Giants vice president Larry Baer, discussing the PSL plan. "It's just that no one ever had to do it before."[xix]

AS OF PACIFIC BELL PARK'S DECEMBER 11, 1997 GROUNDBREAKING, OVER 12,000 CHARTER SEATS HAD BEEN SOLD—AND $50 MILLION HAD BEEN RAISED FOR CONSTRUCTION. "IT CAN BE DONE," SAYS GIANTS VICE PRESIDENT LARRY BAER, DISCUSSING THE PSL PLAN. "IT'S JUST THAT NO ONE EVER HAD TO DO IT BEFORE."

Pittsburgh PSL Options

What do the PSL experiences of other cities have to offer the Pirates and Steelers? During the Regional Renaissance Initiative (RRI) campaign, representatives of the clubs expressed skepticism about the willingness of Pittsburgh fans to pay for the right to buy tickets that fans already believe that they own. Pirate officials in particular scoffed at the notion that any significant money could be raised for a baseball stadium through PSL sales. However, the successes of the above cities, especially Baltimore, Cincinnati and Cleveland in the NFL and San Francisco in Major League Baseball, strongly suggest that both the Pirates and Steelers could raise significant construction financing for new stadiums through a well-organized PSL campaign tailored specifically for this market.

Throughout the RRI debate, many Southwestern Pennsylvanians said that while they didn't want to pay more taxes to build new stadiums, the idea of having some type of ownership stake in new facilities did appeal to them. The consensus seemed to be that fans of the teams would be willing to help the teams be more competitive, and that they might be willing to part with their money voluntarily for that purpose. For the Pirates, a "charter seat" program along the lines of the Giants' campaign, one that emphasizes the role that fans could play in preserving the 110-year history and tradition of the franchise and being an important part of its future success, could tap into this sentiment. Because of differences in market size and existing ticket base between Pittsburgh and San Francisco, it is likely that any seat Pirate seat license program would offer fewer seats at lower prices than did the Giants' campaign. Still, even if the Pirates' program raised even half of the Giants' projected $40 million, that would generate $20 million toward the planned $200 million ballpark—a very good start indeed.

The results of the PSL campaigns in Baltimore, Cincinnati and Cleveland would appear to mitigate the Steelers' concerns about alienating existing ticket holders and going against the team's "blue collar" image by selling seat licenses. A program that incorporates the successful features of the three programs—Cincinnati's relatively low prices, Baltimore's "no ticket price increase" pledge, and Cleveland's discounts based on the length of time a fan has held season tickets (and which appeals to the pride Southwestern Pennsylvanians would feel at being "investors" in the new stadium)—has a good chance of success. Again, taking market size and the magnitude of other PSL sale results into account, the Steelers should be able to generate at least $30 million from PSLs toward building a $185 million stadium or renovating Three Rivers.

Naming Rights

In the early 1960s, during the effort to build a new downtown stadium for the St. Louis baseball and football Cardinals, Anheuser-Busch chairman (and baseball Cardinals owner) August A. Busch, Jr. paid $5 million to put his (and his company's) name on the stadium. In 1973, Erie County, New York accepted a $1.5 million offer from Rich Products, Inc. to affix its company name to the Buffalo Bills' new stadium for the next 25 years. Fifteen years later, Great Western Bank signed a 15-year, $15 million agreement to name the Los Angeles Lakers' and Kings' Forum.[xx] But before 1990, Busch Stadium, Rich Stadium and the Great Western Forum were exceptions to the rule. Most stadiums and arenas were named after their home city or county, a civic landmark, or a prominent local personage.

...THE DECADE OF THE 1990S HAS SEEN AN EXPLOSION IN THE SALES OF "FACILITY NAMING RIGHTS." BEFORE 1990, FOUR MAJOR LEAGUE FACILITIES WERE NAMED FOR CORPORATIONS THAT HAD PAID FOR THE PRIVILEGE. SINCE THAT TIME, 49 MAJOR LEAGUE STADIUMS AND ARENAS (AND A NUMBER OF MINOR LEAGUE AND COLLEGE FACILITIES) HAVE ACQUIRED CORPORATE NAME SPONSORS.

With the dramatic changes taking place in the sports marketplace, however, the decade of the 1990s has seen an explosion in the sales of "facility naming rights." Before 1990, four major league facilities were named for corporations that had paid for the privilege. Since that time, 49 major league stadiums and arenas (and a number of minor league and college facilities) have acquired corporate name sponsors. These contracts have been used to generate revenue for the operation or renovation of existing facilities, such as Cincinnati's Cinergy Field (Riverfront Stadium), San Diego's Qualcomm Stadium (Jack Murphy Stadium), and San Francisco's 3Com Park (Candlestick Park). They have also been used to generate construction financing for new facilities like Milwaukee's Miller Park, Arizona's Bank One Ballpark, Charlotte's Ericsson Stadium, and San Francisco's Pacific Bell Park. In any case, naming rights are a significant revenue source that more and more sports franchises are attempting to tap.

Naming rights contracts tend to run anywhere from four to 40 years in length, but most tend to be in the 20-30 year range. Sponsors want the long-term name and brand recognition benefits that come with affixing their name to the facility, so they tend to favor longer agreements. Contract prices depend on the type of facility,

facility size, the number of franchises in the city, market size, the amenities negotiated into the contract, and the amount of expected regional and national media coverage.[xxi] As current naming rights deals increase the success and popularity of sponsors and facilities alike, the number and value of new agreements are likely to increase as well.

Who Buys Naming Rights?

Most of the past and current naming rights buyers have been in the airline (USAirways, Delta, United, America West, TWA, Canadian Airlines), beer brewing (Miller, Busch, Molson), and financial services (CoreStates Bank, Fleet Bank, Marine Midland Bank) industries. The fastest-growing niche of the naming rights market appears to be technology and telecommunications, with companies like 3Com, Corel, Cinergy, Alltel, Qualcomm, Pacific Bell and MCI making recent entrances. In future years, expect these types of firms to continue to compete for facility naming rights, and look for greater participation by automotive and soft-drink companies as they try to keep pace with agreements already signed by General Motors, Ford, and Pepsi for current and future facility name sponsorship.[xxii]

...MOST OF THE PAST AND CURRENT NAMING RIGHTS BUYERS HAVE BEEN IN THE AIRLINE (USAIRWAYS, DELTA, UNITED, AMERICA WEST, TWA, CANADIAN AIRLINES), BEER BREWING (MILLER, BUSCH, MOLSON), AND FINANCIAL SERVICES (CORESTATES BANK, FLEET BANK, MARINE MIDLAND BANK) INDUSTRIES. THE FASTEST-GROWING NICHE...APPEARS TO BE TECHNOLOGY... WITH COMPANIES LIKE 3COM, COREL, CINERGY, ALLTEL, QUALCOMM, PACIFIC BELL AND MCI MAKING RECENT ENTRANCES.

Naming Rights Contract Payment Options

Payments on naming rights contracts can be in the form of cash, tradeouts for the naming company's services, or a combination of the two. When cash payments are required, teams can be paid in three main ways. First of all, the team can accept payment in one lump sum. The National League's Colorado Rockies received a $15 million one-time payment for the naming rights to their new baseball-only stadium, Coors Field, in 1995. Second, the payment can be made in equal yearly installments, as the Ericsson Corporation will do in paying $20 million over 10 years for the right to name the Carolina Panthers' stadium. Third, the team may accept payment in yearly installments, but with an "escalator clause", as Tropicana Dole Beverages North America has agreed to do in its 30-year naming agreement with the American League Tampa Bay Devil Rays' Tropicana Field. Tropicana will pay $1 million in 1998 for the rights, and payment will escalate by 5 percent per year, reaching $2.3 million in the contract's final year.[xxiii]

Some naming rights deals incorporate more than one of these payment options. For example, Miller Brewing Company is paying $41.2 million to name and help build the Milwaukee Brewers' new stadium. Miller will make an up-front payment of $1.2 million to the Brewers and then make annual payments of $2 million for the next 20 years.[xxiv] The variety of payment options allows the team, stadium and sponsor to tailor the revenue stream to suit their own needs. If one of those needs is capital for new stadium construction, an initial lump sum payment, coupled with escalating payments over the term of the agreement, may be an excellent financing mechanism.

Pittsburgh Naming Rights Options

The experiences of other cities suggest that baseball and football stadiums reap approximately $1.5-$2.5 million per year in naming rights, and that new stadiums tend to generate more naming rights revenue than existing stadiums. In some cities where facilities have been renamed, there has been a reluctance on the part of the local media and fans to accept the name change. Whether the old name remains prevalent because of force of habit, a sense of tradition, or a displeasure at the increased corporate influence on professional sports, such reluctance tends to devalue the sponsor's investment. Therefore, if two new stadiums were to be built in Pittsburgh, this would not present a problem. In any case, many of the companies that have purchased naming rights in recent years have noted increased name and brand recognition among consumers, as well as increased sales of their primary products or services.

VIRTUALLY ALL OF THE FINANCIAL SUPPORT FOR THE REGIONAL RENAISSANCE INITIATIVE CAME FROM THE PITTSBURGH CORPORATE COMMUNITY... IT SEEMS LIKELY THAT BOTH TEAMS COULD RECRUIT HIGH-PROFILE PITTSBURGH "CORPORATE PARTNERS" TO... NAME THE NEW PARKS...

Virtually all of the financial support for the Regional Renaissance Initiative came from the Pittsburgh corporate community. Companies like USX, Mellon Bank, PNC Bank, Allegheny Health Systems, Federated Investors, and Allegheny Teledyne donated hundreds of thousands of dollars to underwrite the campaign for more tax dollars to support "valued regional assets" like the Pirates and Steelers. It is probably safe to conclude that the leaders of those corporations still believe that keeping the teams in town is a worthy goal. Toward that end, it seems likely that both teams could recruit high-profile Pittsburgh "corporate partners" to help underwrite a privately financed effort to build new facilities—and that two would name the new parks as well.

Since baseball has many more home dates (and therefore many more possibilities for national and regional media mentions), we will assume that naming rights for a new Pirates' stadium could be sold for more than the sum received for a new Steelers' facility. We will assign the Pirates' naming rights a value of $2 million per year and the Steelers' a value of $1.5 million per year, both values being within the national range of agreement terms noted above. If 20-year naming rights are sold to both facilities, the Pirates would receive $40 million toward new stadium construction; the Steelers $30 million. (If the Steelers wish to name the stadium after their late founder and beloved patriarch, Arthur J. Rooney, Sr., they could make a contribution to the project in exchange for those rights.) Depending on the competition between competing firms in similar industries in the region and around the country, those totals could be higher than our estimate. In any case, naming rights sales should further augment the Pirates' and Steelers' private stadium fund-raising efforts.

Pouring and Advertising Rights

In September 1995, Dallas Cowboys owner Jerry Jones rocked the sports world by announcing that he had signed independent sponsorship deals for his team's home, Texas Stadium, with Nike ($35 million for seven years), Pepsi ($40 million for 10 years), Dr. Pepper, and American Express.[xxv] In August 1996, Jones and AT&T completed a stadium sponsorship agreement worth $5-6 million per year. These agreements were immediately contested by the National Football League, which claimed that Jones' actions were deleterious to the league's revenue sharing policy and that they undermined the value of the league's collective deals with competing companies like Coca-Cola and Visa. The two parties filed lawsuits against the other, but when the dust settled, Jones was allowed to continue his independent agreements.

Although Jones did not make the deals expressly for the purpose of supporting the operations and future development of his stadium, the revenue that stadium advertising signage, concessions rights, and beverage "pouring rights" can be directed toward renovation of existing stadiums and construction of new ones. A look at some of the agreements that major league teams are developing with "corporate partners" reveals that they can not only improve the team's operating performance, but that their magnitude can help to underwrite stadium construction.

Pouring Rights

The purchase of "pouring rights" guarantees beverage companies (generally soft drink producers) that their products will be sold exclusively in the facility in question. Pouring rights deals can also include the promotion and sale within the stadium of related sponsor products, as well as commitments by the sponsor to participate in other team-related activities.

In April 1996, the National League Arizona Diamondbacks announced a 15-year pouring rights agreement with Pepsi estimated to be worth $40-$45 million for the new Bank One Ballpark. The deal took effect immediately and includes television, radio, print and in-park advertising. Pepsi will sponsor a television show featuring Arizona manager Buck Showalter, and the company will take part in community activities related to the Diamondbacks.[xxvi] Pepsi reached a similar five-year agreement with the American League Seattle Mariners in October 1996, which made the soft drink maker the exclusive beverage of the Kingdome for 1997 and 1998 and for the first three years at the Mariners' new stadium, set to open in 1999. This agreement covers broadcast, branding, signage, and "special events" rights for all Pepsi beverages and also includes the company's Frito-Lay snack and Pizza Hut restaurant operations.[xxvii] Other companies, like McDonald's, Papa John's Pizza and Boston Market, have struck deals at stadiums and arenas as the exclusive food service provider of the facility.

In addition to its deal with Texas Stadium, Pepsi also became the official soft drink of the New England Patriots' Foxboro Stadium in the fall of 1995, ousting its rival Coca-Cola in the process. Other Pepsi sponsorships include the naming rights to the new Pepsi Center in Denver ($68 million for 20 years), the pouring rights at the Great Western Forum in Los Angeles and Tropicana Field in St. Petersburg, and status as the official soft drink of Major League Soccer and the NCAA.[xxviii] With the competition between Pepsi and Coca-Cola intensifying in markets all over the world, look for more and more teams to cash in on the "cola wars" by negotiating their own lucrative pouring rights deals.

THE PURCHASE OF "POURING RIGHTS" GUARANTEES BEVERAGE COMPANIES (GENERALLY SOFT DRINK PRODUCERS) THAT THEIR PRODUCTS WILL BE SOLD EXCLUSIVELY IN THE FACILITY IN QUESTION. POURING RIGHTS DEALS CAN ALSO INCLUDE THE PROMOTION AND SALE WITHIN THE STADIUM OF RELATED SPONSOR PRODUCTS, AS WELL AS COMMITMENTS BY THE SPONSOR TO PARTICIPATE IN OTHER TEAM-RELATED ACTIVITIES.

In-Stadium Advertising Rights

New baseball and football stadiums are specifically designed to enhance not just the viewing and entertainment experience for fans, but also the ability of advertisers to market their products. The configuration of the new parks leaves significant space available for advertising on scoreboards, stadium walls, behind home plate at baseball games and between the goal posts during football contests—and teams make use of every square inch of that space. According to Jon Spoelstra, author of "Ice to the Eskimos," major league franchises expect to reap at least $5 to

$7 million per year from facility advertising—triple the amount realized by teams just three years ago.[xxix]

San Diego, California is considered a "small market" by major league sports standards, just as is Pittsburgh. As mentioned in a prior section, San Diego's Jack Murphy Stadium was renamed Qualcomm Stadium (after a cellular-phone company) earlier this year. The City of San Diego secured the deal in exchange for $18 million over 20 years, the bulk of which will be used to complete renovations necessary for the stadium to host the upcoming Super Bowl XXXII. But the real marketing of the "Q" began two years ago, when the National League San Diego Padres' new ownership group led by software executive John Moores began to exploit the stadium's advertising potential. When Moores bought the team, there were 11 advertisers under contract; now there are 47. The team had three "corporate partners" (advertisers paying more than $100,000); that number has increased to 28.[xxx]

In total, Qualcomm Stadium advertising revenue has increased to $4.2 million annually, with the Padres receiving 75 percent of that amount and the NFL San Diego Chargers pulling in the other 25 percent (less an annual $150,000 signage fee payable to the City). While both teams have enjoyed increased signage revenue at Qualcomm, the Padres and Chargers would prefer, as their competitors would, separate stadiums in which such revenue would be their exclusive property. Small advertising packages start at around $30,000, and large signs typically cost above $500,000 per season. Some of the stadium's "large" advertisers include Budweiser, Coca-Cola, and Toyota. All stadium advertisers are offered exclusivity by product category, and all signage agreements are structured so as to take advantage of the unique characteristics of a particular product.[xxxi]

THE BENEFITS OF CONTROLLING STADIUM ADVERTISING ARE ILLUSTRATED BY THE CHANGE IN THE WASHINGTON REDSKINS' SIGNAGE REVENUE SINCE THEY MOVED INTO THE NEW, PRIVATELY FINANCED JACK KENT COOKE STADIUM THIS YEAR. ACCORDING TO FINANCIAL WORLD MAGAZINE, THE REDSKINS EARNED ONLY $250,000 IN ADVERTISING INCOME DURING THE 1996 SEASON... INDUSTRY EXPERTS BELIEVE THAT THEY WILL REAP BETWEEN $6-8 MILLION ANNUALLY AT THE NEW PARK.

The benefits of controlling stadium advertising are illustrated by the change in the Washington Redskins' signage revenue since they moved into the new, privately financed Jack Kent Cooke Stadium this year. According to *Financial World* magazine, the Redskins earned only $250,000 in advertising income during the 1996 season at Washington's Robert F. Kennedy Stadium. Industry experts believe that they will reap between $6-8 million annually at the new park.[xxxii]

The Redskins' popularity, coupled with a policy of limiting the number of signs in the stadium's lower deck (where the highest-priced seats are located), has allowed them to command premium rates from potential advertisers. Specifically, the Redskins received special permission from the NFL to put signs low in each end zone. These signs, which went to Budweiser, Coca-Cola, Sprint and NationsBank, cost between $350,000 and $500,000. NationsBank's three-year deal illustrates the privileges that come with stadium sponsorship: 18 concourse banners, additional concourse signs, its logo on the back of all tickets, three automated teller machines in the stadium, game-day radio commercials, and a contest (promoted on the stadium scoreboards) that would allow a fan two minutes to get all the money he can from an ATM machine.[xxxiii]

In addition to the end zone panels, the Redskins will offer six 4-by-16-foot sideline panels costing $100,000 per year, two similarly sized signs next to the 45-second clocks for $125,000 annually, and a sign above each field tunnel for the same price. 30-second commercials on the stadium's JumboTron scoreboards are available for

$15,000 per season (at one spot per game). These prices may vary with the content of the packages individual companies purchase, and those companies may receive additional amenities, like game program advertising, picnics at the Redskins' mini-camp, or seats on the team plane for an away game.[xxxiv]

The ultimate in stadium advertising will be on display in the Baltimore Ravens' new stadium next fall. For a premium price, companies will be able to buy "moments of exclusivity"—a short period of time during which every sign in the stadium will be turned to that sponsor's ad.

Pittsburgh Pouring and Advertising Rights Options

Given the intensely competitive nature of the soft drink industry and the desire of those companies to tap into the younger, freer-spending demographic groups sports fans represent, it seems likely that both the Pirates and Steelers could capitalize on the market trend toward increases in pouring rights fees. If both teams allowed competitive bidding processes for these rights (and stadium concessions), it would be possible for each franchise to negotiate long-term agreements lucrative enough to allow some of that revenue to be used for stadium construction.

GIVEN THE INTENSELY COMPETITIVE NATURE OF THE SOFT DRINK INDUSTRY AND THE DESIRE OF THOSE COMPANIES TO TAP INTO THE YOUNGER, FREER-SPENDING DEMOGRAPHIC GROUPS SPORTS FANS REPRESENT, IT SEEMS LIKELY THAT BOTH THE PIRATES AND STEELERS COULD CAPITALIZE ON THE MARKET TREND TOWARD INCREASES IN POURING RIGHTS FEES.

The most prominent pouring rights contracts have been negotiated in larger markets than Pittsburgh, so it is probable that any deals with new Pirate and Steeler stadiums would not be as rich as those of Seattle, Phoenix, Dallas or New England. However, it is reasonable to expect that each team could receive as much as $2 million per year for those rights. Over a 15-year period, each team would then raise $30 million. If half of that amount was devoted to new stadium construction, the sale of pouring rights would yield another $15 million toward the new facilities—and as with naming rights agreements, the deal can be structured to include up-front payments and/or escalation in the annual payment.

As for stadium advertising, let us assume that the Pirates would generate at least $4 million annually in a new baseball-only stadium—roughly the same amount that San Diego's multi-purpose Qualcomm Stadium does currently. Once again, if half of that amount were to be committed to new construction, $10 million would be raised over a 5-year period—and that amount has the potential to increase as advertising contracts are renegotiated every few years.

With regard to the Steelers' situation, let us use the Redskins—another long-standing, respected franchise with a devoted national and regional following—as the benchmark. If the Steelers sell $6 million of in-stadium advertising annually and used half of that total for new stadium construction, they could raise $15 million over the next five years. If the two teams can tap into the intense competition among advertisers for exclusivity and market position, they can get those competitors to underwrite a substantial portion of their stadium costs. This process would help to make certain that those who stand to benefit directly from new stadium construction assume the risks involved with the project.

Pre-Sale of Luxury Suites and Club Seats

When teams have campaigned for new taxpayer-funded stadiums, club officials usually claim that the new parks are "for the fans." While the new stadiums that have been built do, in most cases, have roomier and more comfortable seats, expanded concessions and merchandise areas, and other modern conveniences, the underlying theme is always the same: make more money for the tenant team. It is also important to remember that unlike gate receipts and media revenues, stadium revenue is not shared with competing teams. A new stadium with a favorable (to the team) lease arrangement can ensure a franchise's financial success for years to come—especially if someone else (the taxpayers) pays the construction bills.

While ticket, concessions, advertising, and media revenues are important to sports franchises, the primary cash generators in new stadiums are luxury suites and so-called "club seats." Luxury suites are private rooms with space for bars, kitchens, and other furnishings that have a view of the action and generally accommodate 12-18 people. Club seats tend to be wider and have more padding than regular seats, and holders have access to waiter service, private stadium clubs, and other "perks." The reason for the explosion in luxury suite and club seat popularity was expressed in the June 1996 report of Pittsburgh Mayor Tom Murphy's "Forbes Field II" Task Force: Ticket revenue (and thus, regular fan attendance) is no longer as important to major league teams because it is "unstable," and that more "stable", higher-priced sources of revenue like luxury seating are far more important in the current climate of professional sports.[xxxv] Major League Baseball's new stadiums illustrate this trend: Most of these parks are designed with more luxury boxes, more club seats, and fewer regular seats than their predecessors.

THE REASON FOR THE EXPLOSION IN LUXURY SUITE AND CLUB SEAT POPULARITY WAS EXPRESSED IN THE JUNE 1996 REPORT OF PITTSBURGH MAYOR TOM MURPHY'S "FORBES FIELD II" TASK FORCE: TICKET REVENUE (AND THUS, REGULAR FAN ATTENDANCE) IS NO LONGER AS IMPORTANT TO MAJOR LEAGUE TEAMS BECAUSE IT IS "UNSTABLE," AND THAT MORE "STABLE", HIGHER-PRICED SOURCES OF REVENUE LIKE LUXURY SEATING ARE FAR MORE IMPORTANT IN THE CURRENT CLIMATE OF PROFESSIONAL SPORTS.

These "luxury" amenities do not cater to the needs of the "average fan"—they are instead means by which the teams court the dollars of wealthy individuals and the corporate community. There is nothing wrong with this business practice—unless the luxury seating is built at the expense of the taxpayer. In fact, if luxury box and club seat leases in new stadiums are sold ahead of time, a portion of that revenue can be used for construction. Teams have generally balked at using revenue from these sources for stadium construction—for example, Pirate officials called this practice "giving away our revenue streams." However, using this revenue to invest in a newer, potentially more financially competitive place of business is hardly a "giveaway." Instead, it is a means of once again ensuring that the individuals who receive the most benefit from new stadium construction pay most of the costs.

Origins of Luxury Seating

The concept of luxury boxes got its start in the mid-1960s, as Judge Roy Hofheinz, the visionary former owner of the Houston Astros, was putting the finishing touches on the "Eighth Wonder of the World"—the world's first domed stadium, the Astrodome. As the Judge looked up to the stands from the playing surface, he was reminded of a trip he and his wife had made to Rome—in particular, of their visit to the Colosseum. He remembered the private boxes used by the emperor and other dignitaries, which were situated high above the spectator bowl. The Judge directed his architects to install a ring of 52 such boxes between the field level and the upper deck of the Astrodome—and the "skybox", as the luxury suite is popularly called, was born. From that point onward, virtually every new stadium or arena would have at least one level of luxury suites.

The first stadium to make extensive use of "club seats" was the Miami Dolphins' Joe Robbie Stadium (now called Pro Player Stadium), opened in 1987. Mr. Robbie, whose family then owned the Dolphins, sold club seat and "executive suite" leases to underwrite the bulk of the construction cost of the $115 million facility, which was financed completely with private dollars. Joe Robbie/Pro Player Stadium has over 10,000 club seats, and 90 percent of those were sold ahead of time, with the revenues used for construction. Over the past decade, major league teams have tried to put as many of these premium-priced seats as possible into their new facilities.

THE FIRST STADIUM TO MAKE EXTENSIVE USE OF "CLUB SEATS" WAS THE MIAMI DOLPHINS' JOE ROBBIE STADIUM... OVER THE PAST DECADE, MAJOR LEAGUE TEAMS HAVE TRIED TO PUT AS MANY OF THESE PREMIUM-PRICED SEATS AS POSSIBLE INTO THEIR NEW FACILITIES.

Recent Luxury Box and Club Seat Trends and Pittsburgh Options

How many luxury boxes and club seats are going into new stadiums? How much are corporations and individuals willing to pay for them? The following table lists the baseball stadiums opened or under construction in the decade of the 1990s, the number of luxury boxes and club seats in each, and the prices charged for each amenity.

Major League Baseball

New Stadium Luxury Seating Data

Team	Stadium	Year Opened	# of Suites	Price Range	# of Club Seats	Price Range
Arizona	Bank One Ballpark	1998	69	$95,000-$125,000	1250	$3745-$4050
Atlanta	Turner Field	1997	60	$125,000-$200,000	5200	$2,075
Baltimore	Oriole Park at Camden Yards	1992	72	$55,000-$110,000	3800	$2,930
Chicago (AL)	Comiskey Park	1991	102	$60,000-$90,000	1800	$1,620
Cleveland	Jacobs Field	1994	122	$36,000-$96,000	2064	$3,463
Colorado	Coors Field	1995	52	$73,000-$110,000	4400	$2,268
Detroit	Tiger Stadium (new)	2000	80	$75,000-$125,000	NA	NA
Houston	The Ballpark at Union Station	2000	60-80	NA	NA	NA
Milwaukee	Miller Park	2000	75	$75,000-$100,000	3500	NA
San Francisco	Pacific Bell Park	2000	65	$65,000-$105,000	5200	NA
Seattle	TBA	1999	66	NA	4254	NA
Tampa Bay	Tropicana Field	1998	52	$40,000-$120,000	NA	NA
Texas	The Ballpark at Arlington	1994	121	$40,000-$200,000	4274	$1215-$1328

Source: 1997 Inside the Ownership of Professional Sports Teams, **Team Marketing Report**

Pirates Luxury Seating

The majority of the new baseball-only parks for which data is available contain or are planned for 65 to 80 luxury boxes and, with very few exceptions, tend to cost $40,000-$125,000 per suite. The "Forbes Field II" Task Force Report stated that a new Pirates stadium would have 60-70 such boxes, and it benchmarked prices against those of Cleveland's Jacobs Field and Baltimore's Oriole Park at Camden Yards. For purposes of estimating the amount of construction financing available to the Pirates from this source, let us assume that the new stadium would have 65 luxury suites. We would then price the suites according to location in the park, such that 20 of them would cost $50,000, 20 would cost $75,000, and 25 would cost $100,000—and that box-holders would lease the suites for a five-year term.

THE MAJORITY OF THE NEW BASEBALL-ONLY STADIUMS... CONTAIN OR ARE PLANNED FOR 65 TO 80 LUXURY BOXES AND, WITH VERY FEW EXCEPTIONS, TEND TO COST $40,000-$125,000 PER SUITE... WITH REGARD TO CLUB SEATING, THE "FORBES FIELD II" TASK FORCE REPORT CALLED FOR 500 TO 3500 SUCH SEATS...

Finally, we will assume that pre-sale rates will, at the very least, roughly approximate those to date in Detroit and San Francisco, which are 63 and 62 percent respectively, and that as with permanent seat licenses, the highest- and lowest-priced suites will sell out first. Specifically, we will assume that 75 percent of the lowest-priced suites, 50 percent of the medium-priced suites, and 60 percent of the highest-priced suites will sell in advance. We could therefore conservatively estimate that 40 suites would be sold under this scenario. To provide an upper boundary to this exercise, we will not assume that all of the suites will sell in advance, because some current Three Rivers Stadium box holders will not lease suites for both the Pirates and Steelers in separate stadiums. Instead, our optimistic estimate is that 80 percent, or 52, of the 65 suites will be leased ahead of time and that 90 percent of the low-priced suites, 70 percent of the mid-priced suites, and 80 percent of the high-priced suites will be leased for a five-year term.

Using this set of assumptions, our estimate is that the Pirates could raise between $15 and $20 million from the pre-sale of luxury suites in a new baseball-only stadium. If half of that revenue were used for new stadium construction, $7.5 to $10 million would be available for that purpose over five years. (For simplicity's sake, we will use the average of the two figures—$8.75 million—as our estimate.) If other considerations so dictate, the team could of course use a lesser or greater percentage of that revenue for development of the new park.

With regard to club seating, the "Forbes Field II" Task Force report called for 500 to 3500 such seats. We will again use Baltimore (3800 club seats) and Cleveland (2064) as benchmarks and estimate that Pittsburgh's new stadium will fall roughly halfway between Camden Yards and Jacobs Field in terms of the number of club seats, at 3000. If the Pirates sell all 3000 seats at Cleveland's prices—a one-time fee of $1600 plus $23 per ticket per game—for their first season, they would raise in excess of $10 million. If half of that $10 million goes to stadium construction, another $5 million would be added to that fund. The bottom line figure on pre-sale of luxury seating for the Pirates' new stadium: $13.75 million.

Steelers Luxury Seating

The Steelers are probably in a better position to raise stadium construction funding than are the Pirates, due to their standing with the fans, strong financial position and overall ownership. Despite these factors, the City of Pittsburgh has treated the Steelers much less favorably than have the Pirates during their time at Three Rivers

Stadium. It must be recalled that when Three Rivers Stadium was in the planning and construction stages in the 1960s, the Pirates were considered the more stable and viable operation of the two. It was the Pirates' demands for a new home (and attendant threats to leave the area) that motivated Three Rivers' construction; the Steelers, who had never made the playoffs at that point in their history, were simply happy to have a chance at their own home after enjoying second-class status at Forbes Field and Pitt Stadium. The original Three Rivers lease favored the Pirates' interests, and subsequent renegotiations tended to address their needs first, especially as their financial fortunes declined and those of the Steelers improved. Considering that history, controlling their own stadium is very attractive to the Steelers, and it is likely that given their record over the past twenty-five years and their immense popularity, they should be able to raise private funds to do so.

...CONTROLLING THEIR OWN STADIUM IS VERY ATTRACTIVE TO THE STEELERS... GIVEN THEIR RECORD OVER THE PAST TWENTY-FIVE YEARS AND THEIR IMMENSE POPULARITY, THEY SHOULD BE ABLE TO RAISE PRIVATE FUNDS TO DO SO.

The following table lists the football stadiums opened or under construction in the 1990s, the number of luxury boxes and club seats in each, and the prices charged for each amenity.

National Football League

New Stadium Luxury Seating Data

Team	Stadium	Year Opened	# of Suites	Price Range	# of Club Seats	Price Range
Atlanta	Georgia Dome	1992	203	$20,000-$120,000	5600	$1000-$1800
Baltimore	TBA	1998	108	$55,000-$200,000	7900	$1075-$2975
Carolina	Ericsson Stadium	1996	160	$40,000-$296,000	10,998	$975-$2975
Cincinnati	Paul Brown Stadium	2000	104	$45,000-$134,000	7500-8000	$995-$1995
Detroit	Ford Stadium	TBA	100-120	NA	7500	NA
Jacksonville	Alltel Stadium	1995	75	$50,000-$80,000	11,000	$1,537
San Francisco	TBA	2000	185-200	NA	10,000	TBA
Seattle	Microsoft Stadium	2002	NA	NA	NA	NA
St. Louis	TransWorld Dome	1995	124	$50,000-$110,000	6,500	$700-$2200
Tampa Bay	Houlihan's Stadium	1998	100	$75,000	12,000	$1,150
Tennessee	TBA	1999	137	$50,000-$125,000	13,000	$995-$2495
Washington	Jack Kent Cooke Stadium	1997	280	$59,950-$159,950	15,044	$995-$1995

Source: **Team Marketing Report**, *1997 Inside the Ownership of Professional Sports Teams*

The new stadiums listed above all have at least 75 luxury boxes, with the majority settling in the 100-160 range. The prices charged tend to cluster around $50,000 on the low-priced end and approximately $125,000 for the high-priced boxes. Three Rivers Stadium has 110 luxury suites at present—let us estimate that a new football-only stadium would have at least that many suites. Let us then assume a differential pricing structure similar to that of the Cincinnati Bengals' new stadium, which serves a similarly sized market. That structure is as follows: $45,000 for the lowest-priced suites, escalating to $59,000, $74,000, $99,000, $119,000, and $134,000, with approximately the same number of suites offered at each price. Finally, let us assume that based upon past performance, the Steelers' popularity with the corporate community is such that 75 to 90 percent of the suites in each price category will be leased in advance for five-year terms.

Based upon the assumptions given above, we estimate that the Steelers could raise between $37 and $43 million for new stadium construction from the pre-sale of luxury suites. If half of that amount were to be devoted to new stadium construction, a total of $18.5 to $21.5 million would be available for that purpose over five years (for simplicity's sake, we will take the average of those two figures—$20 million—as our estimate). If other considerations so dictate, the team could of course use a lesser or greater percentage of that revenue for new stadium development.

With regard to club seating, we will again use Cincinnati's stadium as a basis for pricing and the reported Steelers' management estimate that a new Pittsburgh football-only stadium would have 10,000 club seats. The Bengals are selling club seats at prices ranging from $995 to $1995, which we will round up to $1000 and $2000 for convenience. If 5000 seats are sold at each of the two prices, the Steelers would raise $15 million from the first year's sales. With half of that amount put toward a new stadium ($7.5 million), the total estimated contribution of pre-sold luxury seats to a new Steelers stadium would be approximately $27.5 million.

...THE CAROLINA PANTHERS, AFTER SELLING PERMANENT SEAT LICENSES AND NAMING RIGHTS, ARRANGED FOR NATIONSBANK TO PROVIDE A $62 MILLION LOAN TO COMPLETE THE FINANCING PACKAGE. THE SAN FRANCISCO GIANTS' PACIFIC BELL PARK IS RECEIVING A $145 MILLION SYNDICATED PRIVATE PLACEMENT LOAN ARRANGED BY CHASE MANHATTAN BANK...

Team Bank Loan Financing

Once revenues from the private sources described in this paper are in place, it should be possible for each team to secure bank loans for a portion of the remaining financing. As noted earlier, the Carolina Panthers, after selling permanent seat licenses and naming rights, arranged for NationsBank to provide a $62 million loan to complete the financing package. The San Francisco Giants' Pacific Bell Park is receiving a $145 million syndicated private placement loan arranged by Chase Manhattan Bank, which was contingent upon the sale of naming rights, PSLs, concessions, pouring rights, and advertising.[xxxvi] These loans are then repaid, in part, from the future revenues the club generates—at the stadium and from other sources.

As mentioned earlier, the Pirates and Steelers both promised to contribute to new stadium construction if the Regional Renaissance Initiative had passed. The Steelers' contribution was to be $50 million, which would have likely been in the form of a bank loan; the Pirates' $35 million pledge probably would have been the same. If the teams can capitalize on the aforementioned private financing sources, they will have the ability to show lending institutions that they possess resources large enough to obtain loans for at least the amounts promised during the campaign.

Stadium Corporation

During the RRI campaign, the Allegheny Institute suggested that a corporation be formed to solicit stadium investment from the sources described in this paper, as well as to sell shares of stock to the general public. A stadium corporation could be formed by the team and run as a subsidiary, or it could be established by another entity. As with the seat licensing ideas, being able to buy a share of a new stadium connects fans to the team by giving supporters a sense of ownership in the new enterprise. It generates new loyalty to the team and strengthens existing loyalties, both of which would be tremendous assets to the Pirates and Steelers.

DURING THE RRI CAMPAIGN, THE ALLEGHENY INSTITUTE SUGGESTED THAT A CORPORATION BE FORMED TO SOLICIT STADIUM INVESTMENT FROM THE SOURCES DESCRIBED IN THIS PAPER, AS WELL AS TO SELL SHARES OF STOCK TO THE GENERAL PUBLIC. A STADIUM CORPORATION... CONNECTS FANS TO THE TEAM BY GIVING SUPPORTERS A SENSE OF OWNERSHIP IN THE NEW ENTERPRISE. IT GENERATES NEW LOYALTY TO THE TEAM AND STRENGTHENS EXISTING LOYALTIES...

The public ownership model used by the Green Bay Packers, under which the team is owned by individual non-voting stockholders (who receive no dividends), is run by a board of directors, and is virtually impossible to sell or move, has gotten a good deal of interest in recent years. In fact, the NFL gave the Packers permission to sell $80 million in new stock at $200 per share this past November. The team will offer 400,000 shares initially, but it has the authority to increase the offering to as many as one million shares.

The Packers' new common stock issue is expressly for the purpose of establishing a capital reserve fund dedicated to upgrading (and ultimately replacing) the team's stadium and practice facilities. This fund is subject to NFL oversight, and none of the money in it can be commingled with the Packers' general cash balances or used to pay team operating expenses. Holders of this stock do not receive dividends, and they may not sell or transfer their shares to a third party (although shares may be given, or passed on in the event of death, to members of the holder's immediate family). There is a limit of 200 shares per purchaser.[xxxvii]

If the Regional Renaissance Initiative had passed, each household in Southwestern Pennsylvania would have paid an additional $100 per year in sales taxes—$700 over the seven-year life of the tax. Despite the overwhelming "no" vote, over 280,000 people did vote "yes," and many voters opposing the tax were in favor of private contributions to the teams. Also, consider that many large area corporations contributed hundreds of thousands of dollars to the RRI campaign, and that fans from outside the region could buy stock. Given this level of support from the fans and the business community for the teams during the referendum campaign, perhaps they would be willing to transfer that support to a stadium corporation.

There is some concern that fan investment in stadium corporation shares will draw funds away from other private sources, like permanent seat licenses. However, there are several mitigating factors that should assuage those concerns. First of all, stadium corporation shares and permanent seat licenses serve two distinct markets. Many fans who have no desire to attend games will still likely wish to express their support for the teams, and they can do so by purchasing corporation shares. Those individuals who do wish to purchase tickets are more likely to enter the market for seat licenses (although those individuals may choose to buy corporation shares as well). Second, we anticipate that local businesses, as well as companies and fans from across the country, will account for a good deal of corporation share sales. Convenience and distance makes the purchase of stadium corporation shares a much more logical investment for out-of-region Pirate and Steeler fans than a seat license. In any case, the differences between the two types of assets are such that they would not draw funds away from the other to any significant extent.

Details regarding stock ownership rights—dividend privileges, re-sale restrictions, league approval and oversight—would be worked out by the stadium corporation in order to maximize potential sales and protect shareholder interests. In order to guard the team against a possible "takeover" of the stadium corporation for any use detrimental to its interests, appropriate language would be included in the corporation's charter that prohibits it from being used for any other purpose.

...AS MANY POINTED OUT DURING THE RRI CAMPAIGN, THERE IS STILL MORE THAN $40 MILLION IN OUTSTANDING DEBT ON THREE RIVERS STADIUM, AND THAT LIABILITY WILL HAVE TO BE DEALT WITH REGARDLESS OF WHAT HAPPENS TO THE PIRATES AND STEELERS... THE FOLLOWING... WOULD ALLOW BOTH TEAMS TO GET THEIR OWN FACILITIES AND RETIRE THE EXISTING THREE RIVERS DEBT...

Let us then suggest that the Pirates form a stadium corporation, with restrictions upon the use of funds raised similar to those of the Packers' new stock offering, offer one million shares to the public at $100 apiece, with the stipulation that no purchaser can buy more than 200 shares. If all 281,336 "yes" voters bought at least one share (and it is likely that some would buy multiple shares), at least $28 million would be raised for the corporation. If at least half of the 530,706 "no" voters bought at least one share, that would bring in another $26.5 million. When one considers corporate and out-of-region fan purchases, it should be possible for the team to sell $120 million worth of stock in the new stadium corporation.

The Steelers could do the same thing if they chose. The team is at least as popular, both in its own home market and nationally, as the Packers are in their local market and nationwide, and if they can duplicate Green Bay's sale of 400,000 shares (while charging $250 apiece), they would have $100 million for new construction or renovation of Three Rivers. If renovation is the chosen option, the team would probably be satisfied with raising one-third of that amount. Here are the aggregate figures:

Financing Source (millions of $)	Pirates	Steelers
Permanent Seat Licenses	20	30
Naming Rights	40	30
Pouring/Concessions Rights	15	15
Stadium Advertising	10	15
Luxury Box Pre-Sale	8.75	20
Club Seat Pre-Sale	5	7.5
Bank Loans to Teams	---	---
Stadium Corporation Shares	120	100
State Infrastructure Funding	---	---
Totals (millions of $)	***$219***	***$218***

Recommendations

So given the private financing alternatives outlined in this paper, what is the most prudent course of action for the Pittsburgh area, not just for the teams, but for the region's taxpayers? Recall that, as many pointed out during the RRI campaign, there is still more than $40 million in outstanding debt on Three Rivers Stadium, and that liability will have to be dealt with regardless of what happens to the Pirates and Steelers. Keeping that in mind, we propose the following, which would allow both teams to get their own facilities ***and*** retire the existing Three Rivers debt:

Scenario A:

1. Create a corporation, the sole purpose of which would be to build one of the two teams (say, the Pirates) a new $200 million stadium. The corporation could be set up by either the Pirates themselves or by another organization. It would issue shares to the public with the goal of raising 50-60 percent of the stadium's construction cost from the stock sale. The results of such a stock offering should settle the question of whether or not the Pittsburgh market will support major league baseball—if the people truly believe the Pirates are an asset to the region, reasonably priced stadium stock should sell. The remaining money would be raised from the other private financing options discussed in this report.
2. After the Pirates leave Three Rivers Stadium, transfer its ownership rights from the Stadium Authority to the Steelers for a price negotiated by the team, the City of Pittsburgh, and the Stadium Authority. The Steelers would then have the rights to all revenues from the stadium and be responsible for all subsequent renovations, improvements and operating expenses.
3. The existing Regional Asset District (RAD) allocation for Three Rivers Stadium can then be used to retire the Stadium Authority debt. The RAD Board has appropriated $10 million to the stadium for 1998 and is committed to provide annual funding until 2004. The RAD contribution would then cease upon retirement of that debt.
4. Governor Ridge has indicated that he would consider authorizing state funding for up to one-third of the cost of stadium projects. Tax dollars should not be used for stadium construction, but these funds could be used to provide legitimate infrastructure like water and sewer facilities and street and road improvements around the development. State funds could also be used to help secure any land needed for the facilities, and any such deal could be structured in such a way that the taxpayers could recoup this outlay as the property's value appreciates.

According to architectural studies completed earlier this year at the request of the Steelers, converting Three Rivers into a football-only stadium would cost about $120 million, as opposed to the $200 million estimated cost of constructing a brand-new facility. Depending on what the Steelers ultimately decide to do, the renovation costs could be much lower. This lower cost would mean that the Pirates' ability to raise private funds for a new stadium could be enhanced, because the Steelers would need less money for their facility. The publicly incurred Three Rivers debt would be retired before it could impose a further burden on City and County taxpayers, and both teams would be in possession of the single-purpose facilities that they desire—without increasing taxes or making new commitments of existing local tax money.

WE HAVE USED THE EXPERIENCES OF OTHER CITIES TO ESTIMATE THE POTENTIAL PRIVATE FINANCING FOR NEW STADIUMS IN PITTSBURGH. WE CANNOT EMPHASIZE STRONGLY ENOUGH THAT THESE ARE ONLY ESTIMATES, AND THAT THE ACTUAL AMOUNTS RAISED FROM ANY OF THESE SOURCES NOT ONLY MAY BE HIGHER OR LOWER THAN THOSE GIVEN HERE, BUT THEY ALSO DEPEND SOLELY UPON THE EFFORTS OF THE TEAMS THEMSELVES TO SECURE FUNDING... IF THEY CANNOT GENERATE PRIVATE FINANCING, THEN THE TEAMS MUST ACT ACCORDINGLY.

Scenario B: Use the same process, but have the Steelers create the corporation and the Pirates take over Three Rivers.

In either case, these issues would have to be negotiated by the teams. In fact, a Steeler or Pirate stadium corporation could simply buy Three Rivers from the City outright and refurbish it. An added advantage of this approach is that when the RAD appropriation for Three Rivers ends in 2003, at least a portion of that $10-$13 million could, along with a portion of the Allegheny County hotel tax, be used for expansion of the David L. Lawrence Convention Center.

Conclusion

We have used the experiences of other cities to estimate the potential private financing for new stadiums in Pittsburgh. We cannot emphasize strongly enough that these are only estimates, and that the actual amounts raised from any of these sources not only may be higher or lower than those given here, but they also depend solely upon the efforts of the teams themselves to secure funding. The owners of the Pirates and Steelers are the direct beneficiaries of the income new stadiums would generate, and it is their responsibility to get them built if they are truly essential to their long-term financial health. If they cannot generate private financing, then the teams must act accordingly.

But it is possible for the Pirates and Steelers to build new stadiums with no tax dollars for construction. The naysayers do not deter us—instead, we are heartened by the words of Charlotte's Hugh McColl ("These funds will be raised privately—period. Let's not create a tempest in a teapot. We do not have a problem we cannot solve. You can write that down.") and San Francisco's Larry Baer ("It can be done...It's just that no one ever had to do it before.") With ingenuity and determination, what happened in Charlotte, Miami, Washington, San Francisco and so many other American cities can happen here—sports stadiums can be built privately.

WITH INGENUITY AND DETERMINATION, WHAT HAPPENED IN CHARLOTTE, MIAMI, WASHINGTON, SAN FRANCISCO AND SO MANY OTHER AMERICAN CITIES CAN HAPPEN HERE—SPORTS STADIUMS CAN BE BUILT PRIVATELY.

ENDNOTES

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