ALTERNATIVE PLAN FOR PITTSBURGH STADIUMS

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On February 3, 1999, the state legislature voted for a stadium financing plan which involved no tax hike, a debt ceiling increase, and a requirement for the teams to pay part of the debt incurred by the state.

Just one and a half years ago, in 1997, Pittsburgh sports teams and the Murphy administration demanded a tax increase and debt ceiling increase to pay for the building of two new stadiums with no requirement to repay taxpayers.

This has occurred despite the fact that Pittsburgh's mayor, two Allegheny County commissioners and the sports teams have repeatedly insisted at each point in this process that each plan, whether the RRI or plan B, was the only possible way to fund stadiums and that no concessions could be made. The Plan which passed, although hardly a favor to the taxpayers, is better than either the RRI or the original Plan B.

The funding plan passed by the legislature is far from perfect; it contains some provisions that will protect citizens from being stuck with an albatross.

Some positive aspects of the legislature's plan:

- **It requires the teams to repay immediately the state's funds if they leave the new stadiums**
- **The teams are responsible for paying back the state funds over the next 30 years**
- **The teams are penalized if the stadiums do not live up to the rosy economic projections**

On the downside:

- **Even though the funding is purported to be a loan, there is no interest charge**
- **No direct, out of pocket obligation of teams will be due for 10 years.**
- **The added taxes paid by activities associated with the new stadiums will be credited towards the team's obligation.**

On balance, the terms of this deal are very generous to the teams and inadequate guarantees to the taxpayers.

The following is a plan originated by the Allegheny Institute that would have afforded greater protections for the taxpayers of Pennsylvania than the plan supported by the legislature and signed into law by Governor Ridge on February 09, 1999.

ALTERNATIVE STADIUM PLAN
A PLAN FOR ACHIEVING STADIUMS IN PITTSBURGH

Outline of Plan

The Institute's alternative to Plan B is outlined below.

Briefly, the Alternative Plan calls for the construction of a new stadium for the Steelers, the expansion of the convention center construction and leasing Three Rivers Stadium to the Pirates for a token annual rent.

The Plan would be funded as follows:

(1) The current RAD contribution to Three Rivers of $10 million per year would remain in place through the balance of the current 10 year contractual period.
The July 9 RAD resolution regarding Plan B would be repealed.

(2) The Public Auditorium Authority's current intention to issue $99 million in bonds backed by the hotel tax would be raised to $125 million. $45 million of these funds would be used to finance the convention center expansion. $80 million would be dedicated to the new football stadium. This provision would require a legislative change in the statute governing the use of Allegheny County hotel tax revenue to allow these funds to be used for stadiums.

(3) A $200 million state allocation for the convention center. This would require the state legislature to vote a debt ceiling increase and allocate an additional $50 million for the Pittsburgh convention center expansion.

(4) $25 million for convention center expansion would be raised through RAD or County loans and sales of naming rights, concession rights and other appropriate convention center assets. This would round out the convention center funding requirements.

(5) Any federal funds that can be acquired would be used for needed road and related Infrastructure projects.

(6) The state legislature could enact new statewide user fees and taxes which would be levied on sports and stadiums related activities. The revenue would be used to supplement local funding for stadiums. For example, the state could impose a ticket surtax to help fund stadiums.

The new stadium for the Steelers would require the team to raise the remaining cost of construction. The Pirates would take over Three Rivers as sole tenant upon completion of the new football facility and be entitled to all revenues from the stadium. In addition, the Pirates would have the right to refurbish the stadium as they see fit to make it more compatible with baseball. The convention center expansion would proceed as currently planned.

Opening New Sources of Revenue

In addition to the stadium related revenues the teams will receive, it is recommended that each team consider selling non-voting shares in the franchises to raise additional cash.

The region's corporate community should step forward with stadium sponsor ships. These would entitle honorary placement of corporate logos and names in prominent places throughout the facilities.

The revenue impacts of the Plan are shown in the tables which appear later in this document.

Advantages of the Plan

A. This plan limits the use of tax dollars to hotel tax revenues for new stadium construction. This is a tax is paid almost exclusively by out of town visitors and is a tax used by many communities across the country for stadium funding. Indeed, several recent referendums calling for hotel tax funding of stadiums have received voter approval. Equally important, this plan eliminates the need for state funding of stadiums, saving Pennsylvania's taxpayers more than $300 million which can be better used to rebuild and enhance the region's infrastructure.

B. This proposal limits RAD funds to the remainder of their contractual obligation to Three Rivers Stadium.

C. Each team will be able to exercise full control of their respective facilities under the long term leases including choosing grass fields, reconfiguring Three Rivers Stadium as a baseball only facility in the manner of Busch Stadium in St. Louis. The teams will retain all revenues generated by the facilities including naming rights, personal seat licenses, luxury boxes, new club seating, in-stadium advertising, pouring rights, etc. These funds will provide the Steelers the means to finance the required private portion of the new stadium and provide a large increase in revenues for the Pirates that will serve to improve their competitiveness.

D. The choice of a new stadium for the Steelers and a refurbished Three Rivers for the Pirates is based on two important considerations. (1) The Steelers are an integral part of the community fabric. Their fan loyalty is broad based and intense. The Steelers are more financially viable and play in a league with sensible revenue sharing and salary caps in place and are longer term more secure.

(2) The Pirates face an uncertain financial future even with a new ballpark. The escalation of major league player salaries in the large markets continues unabated. Even if the Pirates were to realize a net increase of $25 million per year from a new park, they would still be unable to meet the level of payroll necessary to be competitive or to win pennants. Thus, the team’s financial situation is likely to get worse rather than better over time. If the team were to declare bankruptcy and move away, the taxpayers would be stuck with an empty facility.

E. The Plan leaves Three Rivers in tact thereby avoiding tearing down a structure with a book value of at $35 million, avoids wasting the pay down of the remaining bond debt of $40 million and avoids the $5 to $10 million in demolition costs.

Revenue Impacts of the Plan

Pirates lease a refurbished Three Rivers for a token annual rent

Expected Revenues	Amount
RAD contribution for remainder of 10 year contract	$50 million
Naming Rights	$20 million
Personal Seat Licenses	$10 million
In Stadium Advertising*	$ 2 million
Club Seating	$ 2 million
Concessions/pouring rights*	$10 million
Luxury Boxes pre sale*	$ 1 million
Non-voting shares sales to the public	$ 30 million
Corporate sponsorships	$ 40 million
Total	$165 million

* Increase from current level

All estimates in present value terms and are conservative. There is no estimate of increased gate revenues which would further increase the team's revenues.

The $ 165 million would allow for substantial reconfiguration of the stadium as well as provide a set aside fund to be used for annual debt service on the stadium. Once the set aside is depleted in 5 to 10 years, the Pirates would pay sufficient rent to the stadium authority to meet debt service payments until the bonds are retired in full. By that time it should be clear whether the Pirates will stay and be financially successful. The annual debt service of $4 million is a fraction of the annual salaries of many major league players.

Steelers Build New Stadium

Expected Revenues	Amount
Hotel tax and sports users fees backed bonds	$ 80 to 100 million
Private funding	$182 million
PSLs	$ 35 million
Naming Rights	$ 30 million
Club Seating Pre-sale	$ 2 million
Luxury Box Pre-sale	$ 5 million
Pouring Rights/Concessions	$ 15 million
In-stadium advertising	$ 5 million
Non-voting shares sales	$ 50 million
Corporate Sponsorships	$ 40 million
Total	$262 to 282 million

Estimates are on a present value basis.

Estimates are conservative and should allow the team to achieve an actual total above $182 million. The team will also benefit from much higher revenues from annual ticket sales and revenue from stadium related developments which are not estimated. The team will be able to borrow significant amounts if necessary against the projected revenue streams. To the extent that $262 million exceeds the new stadium funding requirements, the Steelers would be able to use the private funds for other purposes. The amount of money that could be raised through user fees could vary over a wide range depending on the types of taxes imposed.

The success of the Steelers' PSL sales in which nearly $40 million has already been raised points to the ability of the Steelers to raise large sums through the private sector.

Convention Center Expansion

Expected Revenues	Amount
State funds	$200 million
Hotel Tax Bond Proceeds	45 million
Other: RAD loans, County loans, naming rights, etc	25 million
Total	$270 million

These figures are quite different from the Plan B amounts. The major changes are elimination of the RAD contribution, a $50 million increase in the state's share and the acquisition of RAD or County loans, sales of naming rights and concession rights, et cetera to raise $25 million. The $125 million in hotel tax backed bonds would require a $10 million per year commitment of hotel tax proceeds. An easily achievable amount since the current collections are running at a rate of about $ 15 million per year.
Over time that annual revenue stream could climb well above $20 million per year making the required debt service quite comfortable.

The legislature would have to approve hotel tax for stadiums and may need to change the section of the law requiring that 40 percent of the original 5 per cent tax be allocated to the Convention and Visitors Bureau.