# Operating Methods Relationships

NHL Arenas

**Recommendation:**
That that January 18, 2012, Sustainable Development report 2012SCO367 be received for information.

## Report Summary

**This report provides an overview of the operators of private and publicly owned NHL arenas.**

## Previous Council/Committee Action

At the October 26, 2011, City Council meeting, the following motion was passed:

> That Administration provide a report to City Council on the operating methods, including the involvement of NHL teams, used by arenas in North America and including information on the major arena operators like AEG and Live Nation and the relationships between arena operating organizations and concert booking agencies.

## Report

In response to the October 26, 2011, City Council motion, Administration engaged Professors Dan Mason and Mark S. Rosentraub to provide information on the operators of privately and publicly owned NHL arenas and a commentary of the pros and cons of using major arena operators such as AEG and Live Nation.

Attachment 1 provides an updated list of NHL arenas, owners and operators.

Attachment 2 provides a commentary on considerations for selecting an organization to manage an arena.

<u>Current Negotiated Framework</u>

As part of the City Council approved October 26, 2011, revised negotiated framework, section 10 states that the "Katz Group is to operate the new arena and is to pay all operating expenses, capital maintenance and repair."

It has also been agreed that the Katz Group is to determine its own operating framework.

## Corporate Outcomes

- Improve Edmonton's livability
- Transform Edmonton's urban forum

## Attachments

1. NHL General Information Current NHL Ownership and Operating Model
2. NHL Arenas and the use of Major Arena Operators

## Others Reviewing this Report

L. Rosen, Chief Financial Officer and Treasurer

## NHL General Information Current NHL Ownership and Operating Model

| Canadian Facilities | Team | | Operator | Owner |
|---|---|---|---|---|
| Bell Centre (1996) | Montreal | | Private Operation | Private |
| Scotiabank Place (1996) | Ottawa | | Operated by the Ottawa Senators and Live Nation | Private |
| Air Canada Centre (1999) | Toronto | | Operated by MLSE | Private |
| General Motors Place (1995) | Vancouver | | Operated by the Team Management company (Live Nation a preferred partner) | Private |
| Pengrowth Saddledome (1983) | Calgary | | Operated by Calgary Flames | Public |
| MTS Centre (2004) | Winnipeg | | Operated by True North Sports & Entertainment (NHL Team) | Private |

| American Facilities | Team | | Operator | Owner |
|---|---|---|---|---|
| Honda Center (1993) | Anaheim | | Operated by Anaheim Arena Management LLC. | Private |
| TD Banknorth Garden (1995) | Boston | | Delaware North Companies | Private |
| United Centre (1994) | Chicago | | United Center Joint Venture Corporation. Managed jointly by Hawks and Bills. | Private |
| Nationwide Arena (2000) | Columbus | | New deal sees Ohio State University managing the non hockey events for both Nationwide arena and the arena at the University | Private |
| Staples Centre (1999) | Los Angeles | | Owned and operated by AEG, 4 major sports franchise operate out of the facility. | Private |
| Wells Fargo Center (1996) | Philadelphia | | Operated by Global Spectrum | Private |
| Verizon Center (1997) | Washington | | Monumental Sports and Entertainment (team owner) | Private |

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|---|---|---|---|---|
| Madison Square Gardens (1968) | New York | | Renovated in 1990 for $200 million. Plans for a $500 million renovation are underway | Private |
| Pepsi Centre (1999) | Colorado | | Not available | Private |
| Philips Arena (1999) | Atlanta | | Operated by Atlanta Spirit LLC | Public |
| HSBC Arena (1996) | Buffalo | | Crossroads Arena LLC | Public |
| RBC Center (1999) | Carolina | | Operated by Gale Force Sports and Entertainment (Hurricanes) Public sector responsible for 100% of maintenance. Team pays rent of $3m but has control over all revenues. | Public |
| Joe Louis Arena (197) | Detroit | | Operated by Olympia Entertainment (owners of the Red Wings). In exchange for control the City receives 10% of Suite income and 10% of concession profit. | Public |
| Bank Atlantic Center (1998) | Florida | | Sunrise Sports and Entertainment | Public |
| Xcel Energy Center (2000) | Minnesota | | Operated by Minnesota Sports and Entertainment (team owner). Team controls naming rights. | Public |
| Gaylord Entertainment Centre (1996) | Nashville | | Operated by Powers Management Company (team Owner). Powers responsible for up to $1m in maintenance expanses, if surpassed City covers. Exit fees included in the agreement | Public |
| Prudential Center (2007) | New Jersey | | Devils Arena Entertainment (team Owned). AEG | Public |
| Veterans Memorial Coliseum (1972) | Long Island | | Operated by Spectacor Management Group. They are responsible for maintenance operations. Islanders rent is 11% of Ticket Sales, some suite space for the county and other arena revenues. | Public |
| Jobings Com Arena (2003) | Phoenix | | New lease gives team new owner $100m up front funded by parking | Public |

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| | | | fees on arena lots to partial fund the debt. City will contribute $97m over six years to operations | |
| Console energy Arena (2010) | Pittsburgh | | Governance from the Pittsburg Sports Authority. Pittsburg Arena Operating LP (Team Owner) operates. | Public |
| HP Pavilion (1993) | San Jose | | Costs of operation shared 50/50 between the team and City | Public |
| Scottrade Center (1994) | St Louis | | Management company responsible for operation and maintenance | Public |
| St Pete Times Forum (1996) | Tampa Bay | | Operated by Palace Sports and Entertainment. Responsible for all costs and retains all revenues. | Public |
| American Airlines Center (2001) | Dallas | | Operated by partnership of the two teams. | Public / Private |

## NHL Arenas and the use of Major Arena Operators

In major cities throughout North America, operators of large, class “A”- sized sports and entertainment venues rely upon professional firms that specialize in scheduling world class entertainment acts to fill dates not used by the local professional sports teams. In the case of NHL arenas – regardless of ownership – the entity operating the facility generally relies on one of the large international firms (e.g., AEG, Live Nation, etc.) to schedule entertainment events. Changes in the entertainment business have created a demand for firms that can handle all of the desired bookings for national and international tours by entertainers. An entertainer’s managers are now able to deal with one firm that can arrange bookings in every major market. Being represented by one of these firms insures that a city and its facility are included into a leading show or entertainer’s national or international tour and not by-passed in favor of another market. This model gives these firms advantages over smaller, more locally based operators, especially where acts are tied exclusively to these same large entertainment firms.

Beyond the practical aspects of aligning with market changes to ensure that Edmonton’s new arena hosts the maximum number of events there are other pragmatic management principles to be addressed. However, before these are discussed it is important to recognize that where cities have relied on private sector organizations to advance the management of an arena, carefully structured contracts have been developed to protect the public sector’s investment in the facility. With the public’s expectations insured by a signed agreement that also includes appropriate detail and structures dealing with oversight, compliance, and recourse for poor or non-performance.

Examples of cities benefitting from these sorts of arrangements abound from those where the public sector paid a large portion of a facility’s cost. The Gateway Redevelopment Corporation in Cleveland and its contract with the Cleveland Cavaliers to Los Angeles relying on AEG that also paid more than $375 million in the late 1990s to build the Staples Center. SMG – another for-profit firm that specializes in facility management and entertainment bookings – is responsible for Pittsburgh’s Consol Energy Center even though the public sector owns the facility.

Cities have a vested interest in the number of entertainment events that take place in a given facility. Larger numbers of events increase a facility’s utilization rate and more events held mean that more consumer activity is being concentrated in downtown areas (or areas where the public sector has permitted a facility to be built). For most cities, concentration of consumer activity in downtown areas and deflecting some discretionary spending from suburban areas to a city’s center is a critical objective. A larger number of events can also mean more tax revenue for a city, especially when ticket surcharges are part of any lease agreement. Where an agreement is in place for the facility to be maintained at a level that meets the city’s standards, the city can maximize its own benefits by allowing professional firms with the expertise to manage the facility while still ensuring that the facility operates in a condition that represents the city favourably.

**Why Should A Venue Hire A For-Profit Organization To Manage Its Operations?**

Entertainment – including sports – is not a public good or a service traditionally provided by local governments. There are, however, important public policy reasons for a city to enter into a partnership to build a sport facility that can also host entertainment events. These benefits relate to the revitalization of downtown areas and the attraction and retention of skilled human capital for regional economic development. Once the facilities are built, however, private goods are delivered to consumers. As a result, the value of these facilities is maximized if the incentive systems commonly used by private business are incorporated into the management and operation of the facility. With a goal of maximizing events held at a facility a personnel system is needed that rewards private initiative, the utilization of the best possible business practices, and a focus on profit and revenue maximization. Performance of these tasks is best assigned to organizations driven by the profit motive whose goals, activities, and actions can be framed by a contract for services. This is because, in seeking out entertainment acts and maximizing facility usage in order to make a profit, the interests of the city are more likely to be met as there will be more economic activity in and around the facility, tax revenues will be increased (especially where ticket taxes are employed), and a greater number and variety of entertainment acts will enrich the quality of life of residents who choose to attend events.

In this manner, organizations designed to pursue profits – if contractually required to fulfill goals and objectives deemed important by a city and included in a contract or lease to use an arena created by a public/private partnership – are more likely to maximize the benefits a city seeks from the entertainment industry. With the organization attracting events enjoying more income from the sale of food and beverages at the facility there is a clear incentive for their staff to ensure that a high number of desirable events are held at the facility. With the organization earning more profits from rental fees a city can be sure that the most events possible will be held at a facility.

Another advantage of relying on a private business is tied to the continuity these organizations offer when dealing with the entertainment business. Elections often mean different councils and when city managers and other senior staff accept other position a city can lose the individuals who have developed linkages with the entertainment industry. Firms such as AEG and Live Nation have long-standing relationships and are structured to continue their work even when administrations change.

As a result, a city can enter into a contract that requires the management firm to meet specified goals and objectives. Citizens can be assured that a firm specializing in entertainment will be involved with arena operations. With appropriate details and requirements incorporated into the contract the city's administrative leadership can then oversee operations and benefit from the incentives the firm provides to its employees to maximize the number of events and the experiences enjoyed by attendees.

It can also be expected or anticipated that private sector firms with extensive experience in facility management and attracting and retaining events have the necessary linkages with other private firms such as AEG, Live Nation, etc. Those tasks are best left to private firms that specialize in that work and who are contracted by the city to perform in a certain way and to meet certain goals and targets that are included in a contract.

Where locally-based organizations have overseen the operation of NHL arenas, their success has been based upon their ability to link up with the aforementioned entertainment organizations in order schedule a strong suite of acts for their venues. This is because locally-based operators are focused on their own communities and rarely have the linkages to make arrangements with individual performers who seek to plan for tours across numerous cities

To be successful, a local operator would still need to deal with entertainers or producers of shows that want to plan a tour across the continent. To fulfill that objective a local nonprofit organization would have to partner with a myriad of venues to achieve the same efficiency that a company such as AEG, SMG, or Live Nation can secure by the nature of the work they perform each day. A focus on local service or entertainment would have to be woven into an existing network of national and international linkages. In effect, if Edmonton relied on a local organization for management of the facility it is likely that such an institution would in-turn have to represent Edmonton's interests to another firm to insure that the maximum number of events would be held at the facility. A more efficient outcome that insured that Edmonton's interests were represented would be for the city to contract directly with an industry-leading firm.

The reliance on for-profit firms to attract and plan for entertainment events at facilities is a direct result of changes in the industry. With entertainers increasingly turning to firms such as Live Nation, AEG, SMG, etc. to arrange for their concert and show tours, partnerships or alignments with one of these large organizations is usually in a city's best interest.

For example AEG, a wholly owned subsidiary of the Anschutz Company, currently operates three NHL arenas: Staples Center (Los Angeles), Jobing.com Arena (Glendale, AZ), and Prudential Center (Newark, NJ). In addition AEG Live (the world's second largest concert promotion organization) promotes concert tours and has recently promoted concert tours performed by Taylor Swift, Justin Bieber, The Black Eyed Peas, and Carrie Underwood, and has a joint venture with Cirque du Soleil.

Live Nation Entertainment is the world's largest concert promotion company, annually producing 20,000 shows involving 2,000 acts. They also own Ticketmaster and Front Line Management, which represents 250 artists. Both AEG and Live Nation provide unprecedented access to a globally integrated entertainment network.

Where facility operators do not exclusively contract with firms such as AEG or Live Nation, they must still rely on a broader network to ensure their viability. For example, the MTS Centre, home of the Winnipeg Jets, is operated by the owners of the NHL team, True North Sports & Entertainment. That venue is part of both ArenaNetwork (formed in 1998) and the Venue Coalition (2005), two consortiums of venues that try to collectively coordinate and keep facilities on the radar of booking agents. As explained by MTS Centre GM, Kevin Donnelly:

> "I'm way up in northern Canada and isolated from another venue of the same size," Donnelly says. "I need to remind agents and promoters that I exist and that I'm 15,000 seats and routable from this town or the other . . . ArenaNetwork helps establish and perpetuate those friendships" (Peters, 2011)

Thus, facilities cannot successfully drive traffic without the aid of the expertise of the broader industry. In Winnipeg, this strategy has allowed the MTS Centre to regularly attract world class acts, and the facility has been ranked as high as the third busiest facility in Canada (19$^{th}$ in the world) by Pollstar. It regularly hosts acts that are under the umbrella of either Live Nation or AEG.

In summary, as most other communities across North America have concluded, assigning responsibility for the production and delivery of private goods such as sport and entertainment should be vested in the private sector. Cities, however, in the development of leases and operating agreements, should be sure that their goals and objectives become performance criteria that are evaluated and annually measured. With those in place, however, the private sector has been seen to be more efficient in adjusting to changes in the entertainment industry and in the delivery of entertainment services and programming to communities. When private sector organizations achieve that goal the public's objectives for an arena are far more likely to be realized.

Other organizations charged with operating a facility – such as a local non-profit agency – could also manage a facility and develop a relationship with one of the large firms that arranges concerts. That would then require the city to oversee the non-profit organization that in turn oversees the firm booking events. If the city wanted to protect the interests of its residents it would rely on the non-profit or need to have a contract with the non-profit that also specified terms for the team and the retained for-profit firm that deals with entertainment events. A more efficient process might simply involve the city dealing with the team's management firm eliminating one entire bureaucratic layer in the management structure.