Update on Advancing the Downtown Arena

Recommendation:
That the March 2, 2011, Finance and Treasury Department report 2011FT4062 be received for Information.

Report Summary

This report is an update to Council on the actions taken by Administration since the January 17, 2011, City Council meeting.

Previous Council/Committee Action

Refer to Attachment 1, of the March 2, 2011, Finance and Treasury Department report 2011FT4062.

Report

At the January 17 and 18, 2011, City Council meetings, additional information was requested regarding the potential downtown arena project. This report provides a status update on those requests.

Due Diligence and External Expertise
In anticipation of a formal development application being presented to the City, and the understood interest of the Katz Group in partnering with the City on the development of a downtown arena, Administration engaged experts to review, analyse and provide information on various aspects of this type of project.

Administration has been exercising due diligence to understand and develop informed options for consideration in the potential advancement of a downtown arena. The work undertaken to date can be grouped into three main areas:

- Economic review/research
- Development of a comprehensive agreement framework
- Public consultation

As directed by Council at the January 17, 2011, City Council meeting, Administration has proceeded to engage KPMG to serve as the independent financial advisor to assist as needed during negotiations with the Katz Group to verify its financial ability to meet commitments under negotiation.

Administration has also proceeded to engage Populace (formerly HOK) to work with Administration and other relevant stakeholders, to prepare a report on the range of scenarios which could be pursued to ensure the sustainability of Northlands, and to assist in developing options for long term planning for the City-owned Rexall Place lands, as per Council's direction at the December 10, 2010, City Council meeting.

Attachment 2 outlines the external expertise engaged by Administration since early 2010.

Downtown Arena Framework
On January 17, 2011, Council directed Administration to negotiate with the Katz Group of Companies for the development of a downtown arena based on the downtown as per the January 17, 2011, Finance and Treasury Department report 2011FT7366. Administration has engaged in negotiations with the Katz Group in the four weeks since receiving Council's direction. A report on the negotiations will be presented to Council

at the April 6, 2011, City Council meeting.

Community Revitalization Levy
The proposed Community Revitalization Zone boundaries for an arena district, the approvals required, risks identified and risk mitigation strategies, and projected timelines will be presented to Council at the April 6, 2011, City Council meeting. The report will also respond to Council's motion to report on the risks of leakage of development potential from the pending Quarters Community Revitalization Levy to the proposed Arena District Community Revitalization Levy.

Foundation Model
Council has asked for more information on a potential foundation model for the downtown arena development.

The establishment of a foundation to provide governance at a board level for the arena facility would serve to protect the public interest over the life of the facility, while allowing for the management of emerging issues around the business of facility and coordination of corporate responsibilities that are part of the operating agreements.

Draft Terms of Reference: The Foundation would:

- make decisions in the best interest of the facility while representing the public interest
- oversee the terms of the agreement
- be the liaison between the primary tenant and the City
- report annually to Council

The proposed composition of a Foundation board would consist of five to seven members appointed by Council. Recruitment of members would be focused on leading citizens with specific expertise in construction, facility maintenance, sports and entertainment, legal and finance in order to provide the appropriate oversight to ensure the long term benefits of a downtown arena facility are achieved.

A small administrative team with expertise in facility operations and finance would be required to support the board. However, financial processing would still be provided by the City of Edmonton.

If Council elects to pursue the establishment of a Foundation Board governance model as described above, Administration recommends moving forward as soon as possible so that the board could have the benefit of familiarity with the contracts that will be required as they are put in place and so that a smooth transition could occur as contracts are completed.

Council could direct Administration to establish a Part 9 company and return to Council with a Terms of Reference; profile descriptions of each Director and a shortlist for appointment.

The funding of the Foundation is being discussed as part of the negotations.

Attachment 3 provides research on Sports Foundations and Authorities focusing on the five functional areas: Partnerships; Political; Financial; Administration and Corporate Social Responsibility.

Experience in Other Cities
In response to Council's request for additional information regarding the

experience of other cities, Dr. D. Mason, of the University of Alberta and Dr. M. Rosentraub of the University of Michigan were engaged. The authors have extensive background in the economics of major sporting facility development.

Attachment 4 provides an overview of the economic experience of five American cities based on trending of commercial property values or assessed values related to the development of a downtown arena. As well, the authors provide a number of comments relative to outcomes of the research.

Corporate Social Responsibility/ Community Benefits

A community benefits agreement is a contract between two or more parties which establishes the benefits that one or more parties will receive from a development.

Circumstances which typically lead to an agreement of this type are driven by expropriations and displacement which affect a distinct community. A community benefits agreement is typically used as a legal instrument to help to address and mitigate these impacts.

The proposed downtown arena site in Edmonton is approximately six acres and the site is currently unoccupied. The conditions and benefits related to the development of the downtown arena district in Edmonton are different than the conditions and benefits typically addressed in Community Benefits Agreements. For this reason Administration proposes incorporating a community benefits component into the negotiated agreement with the Katz Group instead of developing a separate Community Benefits Agreement.

While a traditional Community Benefits Agreement is not needed for this development there are opportunities to address the broader benefits to the City of Edmonton, as clustered into the themes below:

1. enhancement of the perception and image of the city
2. financial and economic contribution to the local economy
3. improvements to the physical environment
4. attracting and retaining human capital
5. creating a more desirable/liveable downtown
6. reinforcing existing social networks and programs
7. enhancement of the overall health of the sports franchise

Throughout the community consultation the interest to have access to space and facilities for the public was a recurring theme. Public accessibility and use would be among the community benefits that will be addressed through negotiations and will be submitted for Council approval.

Seat Licensing

Council has asked for a report on potential models for seat licensing/condominium sale of seats in a new arena. Council has also directed the City Manager to meet with Stadium Capital Financing Group (Stadium) to discuss what information would be required should Stadium wish to prepare a formal written proposal to the City of Edmonton.

Attachment 5 presents some general information on the concept of personal seat licenses and provides a high level review of the economics of personal seat license models.

Administration has been engaged in more specific discussions regarding the applicability of personal seat license models in a number of variations as an option for funding the downtown arena. Prior to the January 17, 2011, City Council meeting, that included three meetings with representatives of Stadium.

Subsequent to the January 17, 2011, City Council meeting, the City Manager and Administration met with Stadium to discuss the information that they would require to provide a proposal and what information Administration would require in such a proposal.

Administration communicated the need to be in a position to review the alternative economic model, including price point analysis, market review and analysis, concept plan for the financing of the initial capital, on-going maintenance, operating costs, management model and overall governance framework (if City involvement), as well as an understanding that the primary tenant/and or proposed operator of the facility is agreeable in principle to the alternative model and management structure.

An update on this model will be presented to Council at the April 6, 2011, City Council meeting.

Facility design

Administration engaged the public on the proposed arena in a series of meetings and open house events during 2010. The information gathered through these events was a valuable part of the analysis and discussions on this topic. Public input helped to inform much of Administration's work on this proposal.

The design of the Arena will meet the regulations of the Council approved Arena and Entertainment District, including Design Principles in the Capital City Downtown Plan. The role of Council in the design process will be linked to the funding agreement for the Arena. The drafting of the agreement will include provisions for sharing design information with the public as it develops.

Given the nature of the design process, an open house format is the most practical means of pubic engagement. A formal engagement plan can be prepared following a decision on the agreement and once a design schedule has been established. The information gathered at the open house will be reported to Council prior to finalization of the design.

Communication strategy

A communication strategy has been developed that addresses the importance of timely, effective communication on the process underway, to provide Council with information to make an informed decision on the proposed arena project.

Key objectives at this stage of the discussion are:

- To communicate that a decision has not yet been made on the proposed arena and entertainment district.
- To reassure Edmontonians that City Council and Administration are protecting the public interest.
- To inform and engage Edmontonians in the dialogue on this project as it moves ahead.
- Edmontonians understand how the arena project, if approved, could contribute to the revitalization of the City's downtown core.

The plan includes additional outreach to Edmontonians, particularly key stakeholders through regular City updates, and maintenance of current and relevant information on the web site, increased social media activity and proactive media relations. This work is already underway.

Once a decision is made the plan would need to be expanded to incorporate messaging around the decision.

Next Steps

Recognizing the complexities associated with a development of this nature, Administration proposes to host a public information session in late March on the economics of sports facilities.

If Council wishes, a Special Council meeting could be held on March 24, 2011, to hear from experts regarding their experience with arena development. Administration would require direction to schedule this meeting.

In April, Administration will provide Council with a report on the proposed Community Revitalization Levy and an update on negotiations with the Katz Group.

If directed by Council, Administration would also provide further information on the establishment of a Foundation for the proposed arena.

Corporate Outcomes

The development of a sports and entertainment facility within a downtown arena district has the potential to support a number of Council's 10 year goals, specifically: Improve Edmonton's Livability, Transform Edmonton's Urban Form and Diversify Edmonton's Economy.

Attachments

1. Summary of Council Direction since June 2010
2. Due Diligence
3. Foundation Model
4. Experience in Other Cities
5. PSL

Others Reviewing this Report

- R. G. Klassen, General Manager, Planning and Development Department

Summary of Council Direction since June 2010

January 18, 2011 Council Meeting

Downtown Arena - Disposition of Land

That the disposition of the land as described in Schedule A of Bylaw 15491 (Plan 972 4372, Block 9E) be part of a negotiated agreement for the advancement of a downtown arena to be approved by Council

Facility Design - Consultation

That Administration provide a report outlining the options for how the Community can be consulted on the design of a facility and return to the March 2, 2011, City Council meeting.

January 17, 2011 Council Meeting

Guarantees/Collaterals from Katz Group of Companies

2. That the City Manager clarify with the Katz Group of Companies, the guarantees/collaterals that can be provided to balance risk.

That Administration, in regards to the Potential Downtown Arena Development:

Seat Licensing

1. Prepare a report on potential models for seat licensing/condominium sale of seats in a new arena (reference Attachment 2 of the January 17, 2011, Finance and Treasury Department report 2011FT7366).

Foundation Model

2. Prepare a report providing more information on the potential foundation model for the downtown arena development.

Northlands

3. Provide a report summarizing the discussions with Northlands on its potential involvement in a downtown arena and/or its long term financial viability.

Arena District Community Revitalization Levy

4. Provide a report to the March 2, 2011, City Council meeting on an Arena District Community Revitalization Levy.

Administration Due Diligence

5. Provide a report on how Administration has exercised due diligence in responding to Council's direction for information including but not limited to a list of companies that have been utilized throughout the work that has been undertaken.
6. Enter into negotiations with the Katz Group of Companies for the development of a Downtown Arena as per the January 17, 2011, Finance and Treasury Department report 2011FT7366.

Experiences of Other Cities

7. Prepare a report on the experience of other cities on a cross section of businesses adjacent to but outside the immediate Arena Districts.

Non-Statutory on Financial Framework

8. Arrange a non-statutory public hearing on the financial framework to advance a potential Downtown Sports and Entertainment Facility.
9. Prepare and implement a communication strategy based on Council's decision at the January 17, 2011, City Council meeting.
10. Engage an independent financial advisor as needed during negotiations with the Katz Group to verify its financial ability to meet commitments under negotiation.

Community Benefits

11. Prepare a report on the community benefits component of a potential agreement as outlined in the January 17, 2011 Finance and Treasury Department report 2011FT7366.
12. That Administration use external resources when necessary to complete the work as outlined above.

Written Proposal from the Stadium Capital Financing Group

That the City Manager meet with the Stadium Capital Financing Group, LLC and discuss what information would be required should the Stadium Capital Financing Group LLC wish to prepare a formal written proposal to the City of Edmonton.

December 10, 2010, Council Meeting

Sustainability of Northlands

1. That the City Manager work with Northlands and other relevant stakeholders, to prepare a report on the range of scenarios which could be pursued to ensure the sustainability of Northlands.

Long Term Plans for Rexall Place Lands

2. That the City Manager prepare a report on what processes should be undertaken to determine the long term plans for the City-owned Rexall Place lands, should a new arena project be approved by City Council.

July 21, 2010, Council Meeting

That Administration:

1. Enter into discussions with the Katz Group of Companies and Northlands on a framework for the financing, not including an increase in current property taxes, and operations of a potential downtown arena and entertainment project.
2. Develop a community consultation program, in line with City Policy C513, on a downtown arena and entertainment district project on a city-wide basis.

Anticipated Impacts on Northlands

3. Prepare a report for Council on Edmonton Northlands' anticipated impacts and opportunities relating to any potential downtown arena and entertainment district project.

Invitation to Edmonton Northlands

4. Invite Edmonton Northlands to make a formal presentation to Council on the impacts of a new sports and entertainment facility and the future of Rexall Place and the overall financial health of Northlands

Downtown Arena – Potential Impacts

That Administration prepare a report on potential impacts on City operations, infrastructure and investments of a potential downtown arena and include an update on any commitments of Federal and Provincial funding for this project.

Downtown Arena – Private Development

1. That Administration develop a benchmark scenario for private development of the facility and report back on the proforma for this. If it is Administration's conclusion that it is not feasible for an arena to be built privately, then detail and quantify the financial gaps that stand in the way.

Community Revitalization Levy – (Downtown) Risk Leakage

2. That Administration report to Council on the risks of leakage of development potential from the pending Quarters Community Revitalization Levy to the proposed Arena District Community Revitalization Levy.

June 23, 2010 Council Meeting

Potential Advancement of a New Arena

1. That the June 28, 2010, Special City Council meeting be cancelled.
2. That Administration prepare a report for Council regarding the potential advancement of a new arena.
3. That Administration invite the Katz Group to make a formal presentation in public to Council.

Due Diligence

In 2010, approximately $450,000 was spent on external consultants to enable Administration to diligently review, analyze and provide information on various aspects of a potential downtown arena project. This funding was made available through the City Manager's Management Initiative fund and other internal resources. Approximately half of this cost was for community consultation, including the telephone and web surveys. Details on the community consultation were provided to Council on January 17, 2011

#	Vendor	Reason for Engagement	Services Provided	Timeframe
1	Robert Seidel, QC – Daviss LLP	To provide a level of service that is beyond the organization's capacity to deliver internally	• Support to City's Law Branch – project legal considerations • Lead negotiator	Ongoing since mid-2010
2	Colliers International	To provide an independent, objective viewpoint on an issue	• Impact assessment of a development on retail, hotel, residential, office, casino, and student housing markets	February and March 2010
3	IBI Group	To provide a level of service that is beyond the organization's capacity to deliver internally	• Ownership and operating model considerations • Cash flow analysis	February and March 2010
4	Daniel Mason and Mark Rosentraub	To provide a specific skill that the organization lacks or specific knowledge on how to approach the task	• Research and experience from other jurisdictions (facilities and districts) • General advice and guidance on the strategic management of the project process	Ongoing – since February 2010
5	James Sande, AACI - Sande Real Estate Appraisal & Consulting Ltd.	To provide a level of service that is beyond the organization's capacity to deliver internally	• Community Revitalization Levy (CRL) analysis	Ongoing – since mid-2010
6	Calder Bateman	To provide a level of service that is beyond the organization's capacity to deliver internally	• Planning and implementation of community consultation • Analysis of various consultation methods	Ongoing – since February 2010
7	Odvod Media Corporation	To provide a level of service that is beyond the organization's capacity to deliver internally	• Development and production of a video explaining Community Revitalization Levies (CRL)	December 2010
8	KMPG	To provide an independent, objective viewpoint on an issue	• Arena economics • Financial viability	Not yet engaged
9	Populous	To provide an independent, objective viewpoint on an issue	• Major facility/sports environment design and market	Not yet engaged

Foundation Model

Sports Foundations and Authorities

Dan Mason and Mark S. Rosentraub

Introduction

Various state and local governments have created sports authorities (in the United States) or Foundations (in Canada) to represent the public interest and to oversee the management of arenas, ballparks, and stadia. There are five sets of objectives that have defined the need for these organizations. This memorandum first discusses the reasons for creating these authorities and foundations. Each of the five objectives is individually addressed before brief descriptions of the appointment procedures used are presented. The final section of this memorandum includes descriptions of the facilities developed and managed by a select number of these organizations.

The circumstances that drove the creation of foundations or authorities have varied from location to location. What is common; however, are the benefits that are encapsulated in the functions and activities executed and performed. In most instances the board members are civic volunteers drawn from business, education, and the nonprofit sector who have extensive records of public service in addition to their professional accomplishments. Each board is assisted by professional staff who are full-time and part-time employees. Some authorities provide services related to the operation of the facilities and in those instances there are a larger number of full- and part-time employees.

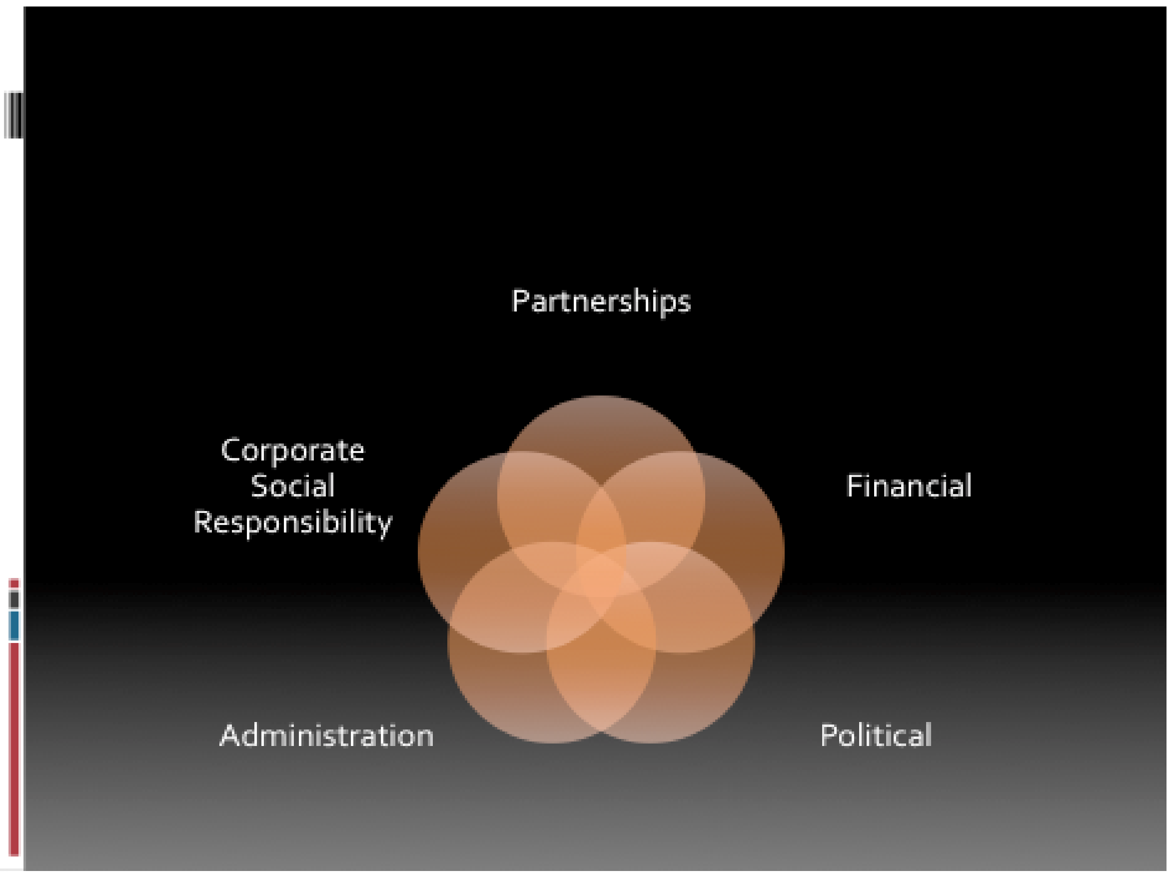
Why Create A Foundation For The New Arena?

Each city that has created a foundation or sport facility authority has recognized the need to build, foster, and maintain relationships with its professional sports teams through an organization that is set to function across the useful life of the facility. City councils have a myriad of issues to deal with, as does the professional bureaucracy. Teams have specific needs and a separate institution to represent the public interest and deal with the changing business world of professional sports is necessary. The foundation is expected to represent and protect the public's interest in insuring that the facility is appropriately maintained even if the financial responsibility for maintenance lies with the team. The Foundation insures that the standards for maintenance desired by the city are sustained.

The Foundation is also created to work with the team on management issues that arise from the changing business practices and economics of hockey. A foundation should also be responsible for developing corporate social responsibility plans with the Oilers' Foundation to reflect the public's interest in the community benefit activities and services developed after the arena's construction.

Figure 1 illustrates the overlapping functions or objectives of sports foundations or authorities. The selection of circles of activities to illustrate the overall management frame for these organizations aptly displays not only what is accomplished, but also how the functions cross each other to satisfy several important needs when sport facilities are built. In the pages that follow these spheres of activities are more fully defined.

Figure 1. The Functions or Activities of Sports Authorities



1. Partnerships

There are two sets of partnerships that these institutions are used to encourage, foster, and sustain. *First* there are those between the units of government involved in the project. This could include a city and county, two or more cities, two or more cities and a county, a city and a state or province, or two or more cities and a state or province. The directors (or board) that are chosen to direct the authority must develop the skills to blend the interests of the various governments and then nurture their cooperation and partnership across several decades. This becomes a vital skill when different political parties assume leadership roles in the various governments or when conflicts arise between partnering governments.

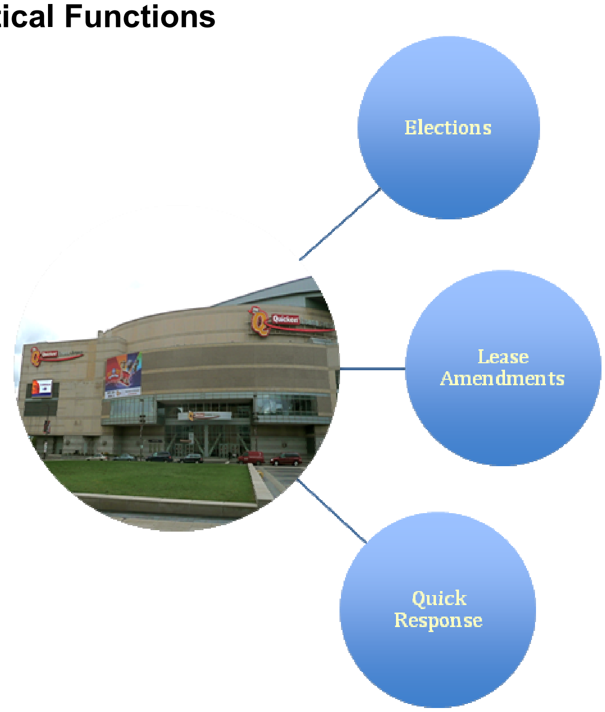
Second, the foundation is responsible for managing the on-going partnership between the public sector and the professional team that is the primary tenant in the sport facility. Instances exist where the team owns the facility that is built on public land and serviced by infrastructure paid for and maintained by the public sector. The nature of that partnership might be different, but the task of maintaining the partnership across decades of operations is the same. In other instances the authority also assumes a lead role in the financing of the facility even when the team is 100 percent responsible for the repayment of the bonds. There are also instances when the team is responsible for less than 100 percent of the bonds sold. The nature of the partnership between the participating governments and the team vary, but the goal is the same. The authority must oversee and maintain a spirit of cooperation over time where there is likely to be repeated changes to political leadership.

Maintaining the partnership and cooperation between the units of government involved must then be melded into joint operations between the public sector and the team. The public sector partnership must be unified to address the multitude of issues that will arise across the decades the facility is operated and maintained. These changes or modifications that become inevitable are described across the next several pages. The public sector partners and their interests and the interests of the team must be melded into a true public interest to protect fans and taxpayers.

The creation of an authority independent of the parties and individuals who negotiated the original deal for the facility has another important benefit. Any animosities or conflicts between individuals that emerged during the initial set of negotiations can be set aside and placed in the past as the team and the public sector move forward for the operation of the facility. With different people involved across the years, new relationships are forged and the board members chosen for the authority are responsible for enforcing and representing the public's interest and the laws enacted while also strengthening the bonds between the public sector (and all of the involved governments) and the team.

The foundation will be required to deal with numerous economic issues that emerge as the financial status of sports as a whole and the team change. There will be enhancement or new revenue centers needed that will require modifications to the building. There will be the inevitable capital expenses that arise as new technologies and amenities develop and become important to a team's fiscal stability and financial success. These must be addressed in a spirit of partnership and insulated as much as possible from the day-to-day politics that dominates in the course of the government's business.

2. Political Functions



The political responsibility of the sport foundation is to insure that local elections do not become forums for debating any required management or administrative issues associated with the arena's operations. The typical arena will last for 20 or 25 years. In most areas that means there will be 5 or 6 general local elections. A team as an operating business needs to be sure that there will be a predictable environment for the continued operation of the facility and its use to maximize revenues (for the team and for the public sector). The sports foundation must insure that the arena, the lease, and any amendments do not become political fodder for candidates or others seeking an advantage in an election once the arena were built. The responsibility of the foundation is to protect the public interest through a secure partnership with the team that permits each to maximize the anticipated economic returns.

One lesson learned across the past decades is that the economic environment of the sport business is quite dynamic. There are numerous examples were teams have needed to increase the supply of luxury seating while other teams have actually needed to *decrease* the number of suites and club seats. When that takes place the team is trying to use the space for alternative revenue streams. A reduction in the number of luxury seats is related to changing economic conditions and is an issue the Baltimore Orioles and Cleveland Indians are dealing with in proposed redesigns to their facilities. This example simply underscores the dynamic business environment of sports and why a board is needed to negotiate with the team when changes are needed.

The reconfiguration of different amenity packages has also required other physical changes to facilities. When these and other issues occur across the life of the arena the team needs to discuss and negotiate for the changes in the least terms required in an apolitical and business-like environment. This is best done outside of the political arena. Once an agreement is fashioned to the satisfaction of the team and the authority, it becomes the responsibility of the board members to explain what is needed to all local governments and secures passage of the new amendments/agreements through the required process (e.g., approval by the city council or provincial legislature or executive agency/department).

Lastly, numerous issues or emergencies may arise where a very quick response is required. A notable and unfortunate example is the recent collapse of the roof of Minneapolis' Metrodome. Cleveland faced a similar situation when a series of early spring snowstorms forced the Cleveland Indians to seek permission to play some of their games at another venue (Milwaukee's Miller Field which has a retractable roof). When these and other situations emerge an authority is needed to make a quick response. Deliberative legislative bodies are not designed to make immediate decisions and coordinate those decisions with the team, the NHL, and the media partners that might also be involved.

3. Financial Matters

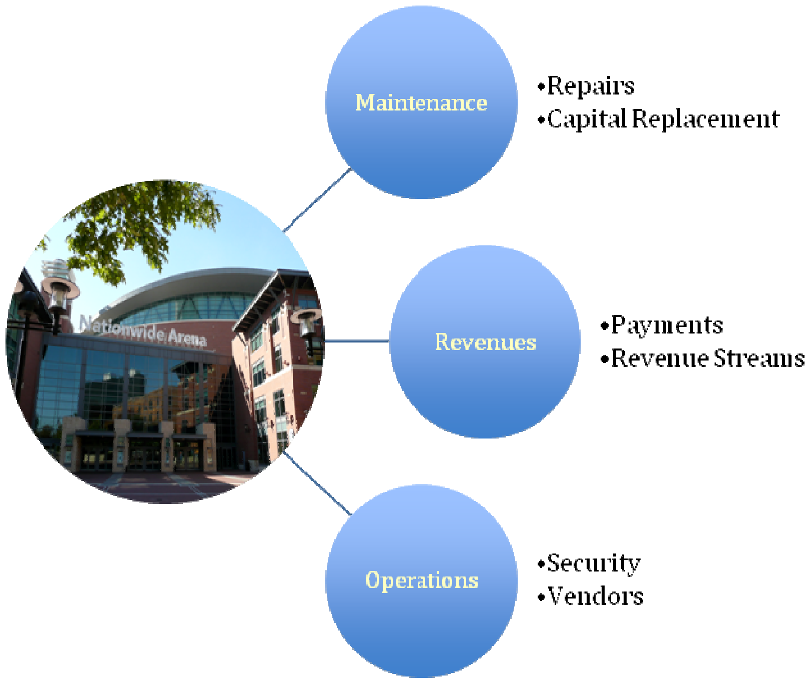
Sport foundations and authorities are also frequently used to assist in land assembly for the building of a facility, providing the required infrastructure, and the related development activities planned for the district or area surrounding the facility. In some instances governments have granted the sports authority the power of eminent domain. The use of eminent domain to acquire land has become increasingly unacceptable at a political level. In many other areas local governments have retained the responsibility for use of eminent domain or chosen to avoid its application. As a result, what is more common is for sports authorities to acquire land and in some instances "bank" acquired land for future use. The funds for the acquisition usually come from revenues earned by the authority, retained by the authority, or conveyed to the authority by participating governments. In Indianapolis the Capital Improvements Board that functions as the sports authority successful acquired and "banked" the land for Lucas Oil Stadium across a number of years. In Los Angeles a redevelopment corporation created by the city council performed the land acquisition and banking functions for the area where the STAPLES Center and LALIVE were built.

Sport foundations have also been used by numerous local governments in the United States as the conduit for the bonds needed to build arenas, ballparks, and football stadia. State laws vary and dictate the benefit of using an authority to negotiate bonds. Provincial laws may make this a valuable function for a sports authority or may preclude the authority from engaging in any activities related to the bonds sold.

Some governments have assigned revenue streams to authorities; most have not and for that reason no inclusion of that possibility is delineated here. The situation in

Edmonton might be different and it might be advantageous to have designated revenues from the public sector assigned to the authority. This issue is more directly explored in the next section of this note.

4. Administration



Sports foundations are generally responsible for insuring that a facility is appropriately maintained even if (and especially when) the team is given operational control of the facility. The authority or foundation's oversight of maintenance insures that the public's interest in the facility is protected and counter balances any fiscal incentives for the team to postpone needed maintenance. The authority should also insure that a plan is developed and appropriately financed to deal with long-term capital issues (e.g., structural issues, roof replacement, scoreboard replacement, ice plant, etc.) Too often these capital or depreciation costs can get set aside if an authority is not made responsible for oversight.

With regard to revenues some authorities receive rental payments from the team or receive the funds to make payments to vendors for work performed. Allowing the authority to perform this function insures that the public interest in maintaining the building is secure. In some instances all of the funds received by the authority come from the team. In other situations local government revenue streams or revenue streams from the facility itself are assigned to the authority.

Lastly, with regard to on-going operations, authorities have been assigned the task of coordinating security issues between governments and the league. Some authorities are also given the responsibility for selecting vendors who perform any work on the facility to protect the public's interest. In other instances authorities merely validate and oversee the work performed to insure standards are met. In other cities the authority and the team conjointly perform these responsibilities. The authority's role in dealing with vendors is always to protect the public's interest in the maintenance of the facility.

5. Corporate Social Responsibility and Extended Community Benefits

A new arena will create a series of benefits for Edmonton. Some of these include a contribution to a revitalized downtown with a vibrant entertainment district and an enhanced image for the city. That image it is anticipated will assist in creation of an identity that bolsters the effort to enhance the city's ability to attract and retain human capital.

These should not be the only benefits provided to the community; the created sport foundation should be authorized to work with the Oilers' Foundation to produce an annual set of benefits and activities that integrate the arena into the city's social fabric. Some of these extra benefits could include community use agreements where the facility is used for youth events, mini-hockey camps, special opportunities for residents to skate in the facility, and tickets and events for under privileged youth and families. Some of these activities are described as community benefits that are incorporated into agreements. Another strategy is to create a foundation that is responsibility for working on these and other ideas with the Oilers' Foundation. Each year the two foundations should report on their plans and accomplishments to the Edmonton City Council.

Pictured above is Harbor Place in Baltimore. Baltimore was among the first cities to have an agency charged with the responsibility of developing plans and ideas for community benefits. It is clear that Harbor Place enhanced the image of the city and created new business opportunities. The plans and programs developed across several years insured that other benefits were also achieved for different segments of the community.

6. Sports Authorities: Selected Examples

A. Gateway Economic Redevelopment Corporation (Cleveland, Ohio)

Gateway was created to build, manage, and maintain an arena (Quicken Loans) and a ballpark (Progressive Field). Created by Cuyahoga County and the City of Cleveland, the Mayor of Cleveland appoints two representatives and the County Executive (County Commissioners under the old form of county government) appoints three members. From among the five board members the Mayor and the County Executive select the chair. The Board members assign responsibilities and roles among themselves. The Board has two professional staff members who oversee maintenance issues and the finances of the Corporation. The Corporation is responsible for all matters related to negotiation of and the enforcement and interpretation of lease terms, maintenance of the facilities, and security arrangements for the facilities. The County Council and the City Council must approve all leases and financial arrangements negotiated by the Corporation with both teams.

The Corporation also has the authority to select and retain legal advisers and other professionals to assist in any negotiations and in the administration of the facilities and the performance and execution of the Corporation's responsibilities. The Corporation must approve all vendors selected by the teams to perform required maintenance (as stipulated in their leases) and the professional staff oversees all maintenance projects and regularly inspects the condition of both facilities. The teams are responsible for the operation of both facilities subject to the oversight of the Corporation. The Corporation can order any needed repairs that then become the responsibility of the teams to execute. An annual budget for the Corporation is developed with both teams and is then approved by the Board and both teams. That budget is subject to review by the County Council and the City Council. The board members are not paid (expenses are covered).

B. Capital Improvements Board (Indianapolis, Indiana)

The consolidated city of Indianapolis and county of Marion initially created the Capital Improvements Board (CIB) to facilitate the financing, building, and maintenance of Market Square Arena (Indiana Pacers), the RCA Dome (Indianapolis Colts), Victory Field (AAA baseball), and the Indiana Convention Center. The operations of Market Square Arena were under the immediate management of Pacer Entertainment with oversight provided by the CIB. Conseco Fieldhouse was built and replaced Market Square Arena (which was razed). Lucas Oil Stadium replaced the RCA Dome that was also razed to permit the expansion of the Indiana Convention Center. The financing arrangements for Conseco Fieldhouse involved the participation of the State of Indiana and the financing of Lucas Oil Stadium involved the participation of several counties in the metropolitan area (through a food and beverage tax) and the State of Indiana. As a result the CIB is now a multi-county partnership with state participation. The mayor of Indianapolis appoints 6 board members; the members of the consolidated city/county council that represent areas outside of the city of Indianapolis appoint one member. The members of the city/county council representing areas within the original boundaries of Indianapolis also appoint one board member. The suburban counties now also appoint a board member. The mayor of Indianapolis (who is also the county executive) appoints the board's president from among his/her six appointees. The CIB is responsible for the financing, management, leases, and maintenance of the facilities. Professional management of each facility rests with the two teams (this may be amended for Conseco Fieldhouse), executives hired by the CIB, or private firms chosen by the CIB (in concert with the consolidated city of Indianapolis and county of Marion). Small stipends are provided to some board members based on their time commitments and expenses are covered.

C. Tampa Sports Authority

The Tampa Sports Authority was created in 1965 to oversee select sports and recreation facilities. Today it is primarily responsible for Raymond James Stadium (Tampa Bay Buccaneers of the NFL) and three city golf courses. The Authority was also a vehicle for the financing of Legends Field (spring training home of the New York Yankees) and the arena built for the Tampa Bay Lightning. There is a complicated appointment system for the 11-member board. Four members of the board are appointed by the Hillsborough Board of Commissioners and must be residents of the county. The mayor of Tampa appoints four members of the board with the concurrence of the city council; these individuals must be residents of Tampa. The Governor of Florida appoints one member of the board who must be a resident of Hillsborough County. The Tampa City Council appoints one ex-officio member of the board and the county's commissioners appoint another. The board members are volunteers and are responsible for all aspect of the operations of the stadium and golf courses.

D. Harris County and Houston Sports Authority

The Harris County and Houston Sports Authority (HCHSA) is responsible for the development, financing, management, and maintenance of Minute Maid Ballpark (Houston Astros), Reliant Stadium (Houston Texans), and the Toyota Center (Houston Rockets). The HCHSA was created from authority granted by the Texas legislature that allows cities to form authorities to lead the "planning, acquiring, establishing, development, constructing, or remodeling of one or more sports and community venue projects or related infrastructure." These broad powers enable local governments to have substantial discretion in the design of sports authorities. A professional staff that oversees the operations and management of the facilities assists the volunteer board and the leases negotiated. Houston and Harris County must approve all legal documents. Houston appoints six members of the board (city council) and Harris County's commissioners appoint six members. The city council and the county commissioners jointly appoint the 13th member who serves as chair.

E. New Jersey Sports and Exposition Authority

The New Jersey Sports and Exposition Authority was created by the State of New Jersey to develop the facilities in the Meadowlands. These venues included the original Giants Stadium (for the NFL's New York Giants and then the New York Jets), the Meadowlands Race Track, and the IZOD Center (home to the New Jersey Nets and the New Jersey Devils; neither team continues to play at the facility). The Authority has also been used as a vehicle to assist in the financing of other assets across the state including horse racing tracks and convention centers. A 16-member board appointed by the Governor governs the Authority. The New Jersey Senate confirms each volunteer nominee. The arrangements and financing deals and leases negotiated by the Authority are subject to laws passed by the New Jersey legislature and each must be approved by the legislature. As an example, when the new stadium for the Giants and Jets was built the legislation approved by New Jersey required that both teams pay for the entire cost of the stadium. A set of infrastructure improvements will be paid for by the State including a new rail line to permit direct access to the facility by trains from Newark's Pennsylvania station. The Authority provided the land on which the new stadium is sited.

F. Illinois Sports Facility Authority

This agency was created by the State of Illinois for the financing, development, and management of a single facility, US Cellular Field, the home of the Chicago White Sox. The Mayor of Chicago appoints half of the board members and the other half are appointed by the Governor of Illinois. The Governor appoints the chair of the board. The Authority was used to facilitate the financing of Chicago's Lakefront development project. Approximately $400 million in bonds were sold through the Authority for the project.

G. Sports and Exhibition Authority of Pittsburgh and Allegheny County

This agency owns and operates several venues in Allegheny County and the City of Pittsburgh. Created in 1954, the authority is responsible for Mellon Arena (former home of the Pittsburgh Penguins; a recent vote will lead to the razing of this venue), PNC Park (Pittsburgh Pirates), Heinz Field (Pittsburgh Steelers), the Lawrence Convention Center, North Short Riverton Park, Consol Energy Center (new home of the Pittsburgh Penguins), and the North Shore Parking Garage. A seven person volunteer board and an 11 person professional staff oversee the work of the authority. The mayor of Pittsburgh appoints the current chair of the board.

7. Summary

In summary, sport foundations and authorities have been created to manage the partnerships that make the long-term operation of a facility and the working relationship between a team and its community a success. The political aspect of an arena's design, development, and integration into urban design and policies are matters that should be resolved between the team and the host local government. Those issues need to be resolved and plans and leases negotiated to the satisfaction of the team's owners and the public's elected leadership. Experience suggests that once those matters are resolved there is a substantial set of benefit resulting from the appointment of a volunteer board to lead a sports authority and its professional staff.

Those benefits include: (1) the maintenance and fostering of successful management partnerships between the public sector and the team, (2) the protection of the public's interests in a facility's maintenance and long-term capital enhancement, (3) the resolution of contentious and dynamic issues in an environment that is conducive for producing unified positions to be presented to elected legislators, and (4) the development and implementation of community benefits through corporate social responsibility programs. The economic climate of every business is quite dynamic and volatile, and legislative bodies are deliberative and political. Often elected leaders do not have the time to become expert into the dynamic world of the sports business. This is where an appointed board and a professional staff can be of great value as an arena must function well for decades to achieve the goals the public and private sector seek when a facility is built and incorporated into a development plan.

Experience in Other Cities

The Effect of Sports Facilities and Entertainment Districts On Existing Businesses: Some Insights

Dan Mason and Mark S. Rosentraub

Introduction

When new sport facilities with substantially enhanced retail space (compared with the aging structures that are replaced) are built, and when the real estate surrounding these venues is redeveloped to include even more retail venues, there is understandable concern that existing businesses might be adversely impacted. To be sure there are going to be single cases or instances when a particular establishment will report that sales declined after a new sports venue opens. Others, however, might also report increased sales as new facilities typically attract more attendees as there is both an increase in the number of events held and many more people are interested in seeing the new facility in its initial years of operations.[1] When this happens nearby businesses might also report increased levels of activity. It is also likely that a business owner that fears competition or the uncertainty that might result from the building of a new facility will suggest that negative outcomes are to likely to occur even when there is an equal probability of positive changes.

Forecasts of negative outcomes for some business owners seem logical, as all new sport facilities offer substantially more opportunities for retail consumption which may potentially impact some existing businesses. Facilities in downtown areas also often become anchor destinations for new entertainment zones replete with restaurants. These new venues can generate concern that customers will be diverted away from existing restaurants and pubs leaving some business owners worse off. It is also possible, however, that the new restaurants and bars bring more visitors to a downtown area. In addition, many of the new venues in downtown entertainment areas and in an arena have price points that focus on a different segment of the market than the ones served by existing businesses. The higher price of food and beverages at facilities lies in the higher profit margins available which some suggest encourages owners to slightly reduce ticket prices to encourage more consumption of higher priced food and beverages.[2] In addition, the extra cost for enjoying food and beverage in or near a new facility often encourages many fans to visit restaurants and pubs that maintain their existing price structures. There is, then, a real market advantage to vendors who can continue to offer high value food and beverage and competitive prices near an arena development.

---

[1] Howard, D. R. & Crompton, J. L. (2003) "An Empirical Review of the Stadium Novelty Effect," *Facility Marketing*, 12: 2, 111-116

[2] Krautmann, A. C.. & Berri, D. J. (2007) "Can We Find It at the Concessions? Understanding Price Elasticity in Professional Sports," *Journal of Sports Economics*, 8: 2, 183-191

It is also important to recognize that all restaurants have a fairly high failure rate. Recent research indicates that 25 percent of all restaurants close or change ownership in their initial year of operation. Across the initial five years of operations approximately 60 percent of all restaurants close or are sold.[3] While these failure rates match those of most start-up companies, it is important for community leaders to recognize that relatively low entry costs make it easy for new restaurants to open. As more and more residents are located in suburban sections of Edmonton the higher levels of competition could well mean that downtown and inner city venues will be challenged to attract sufficient customers. However, a new arena with expanded retail operations might convince more people to visit the, or even relocate to, downtown or inner city areas leading to more business for all retailers in the downtown area. Further, with failure rates of this magnitude, community leaders should expect that some restaurants and pubs will close in the years after a new arena opens as they would have likely failed even if the Oilers continued to play at the existing Rexall Place. There is also a reasonable probability that new venues would open to replace those that shutter their operations.

The Value of Business Property In Cities With Downtown Arenas and Entertain Districts

To further underscore the general observations regarding possible outcomes on businesses when a new sport facility is built the following analyzes development patterns in several US cities and their counties. Each of these cities had built downtown sport facilities or entertainment districts in an effort to bolster property values in the downtown area. The data used for the assessment of the contribution of the facility to development outcomes were the assessed value of properties in the central city area as a proportion of the value of property in the county within which the central was located. Readers are reminded that this analysis was not designed to provide a causal model. It is a far more difficult task to isolate the effect of a sports venue on development patterns when there are a multiple of forces and policies at play in each region influencing development patterns in a central city and its surrounding county.

In a similar vein as Edmonton is considering enhancing its downtown area there are other macro and micro level factors influencing development choices and outcomes for surrounding businesses. In looking at the outcomes of development patterns in several US cities our goal is to illustrate that overall the effects have been to stabilize development patterns so that downtown areas do not deteriorate or become valuable for distinct population segments. There are inherent long-term economic development benefits from both the stabilization of development patterns and the attraction and retention of population groups attracted to vibrant downtown areas.[4] The goal of this analysis is to illustrate that there has been no observed adverse effect on business levels through an assessment of relative growth in property values.

---

[3] http://www.businessweek.com/smallbiz/content/apr2007/sb20070416_296932.htm
[4] See, for example, Rosentraub, M. S. (2010), op. cit.

Suppose a new arena is built as well as some new restaurants in an entertainment district adjacent to the facility. It is possible that property value increments around the arena offset the lost value from the businesses that were negatively impacted elsewhere in the downtown area. How does the data analyzed address this possibility?

American metropolitan areas are experiencing a substantial decentralization of economic activity.[5] A result of that decentralization property values are rising in areas beyond the downtown or older central business district (while the values in the old core area decrease). As a result, if the building of new sport facilities and related restaurants lowered values in nearby areas one would expect that the city's proportion of property (by value) would *decline* given the movement of jobs away from central business districts.[6] The only way for an arena or an entertainment district to preserve the value of business property in an American city would be to create an environment of escalating property values that in essence "raises all boats." A mere reshuffling of property values in and around a new arena at a time when there is a decentralization of business property away from the central city would lead to declining proportions of business property (by value) in the central city.

If the building of a new arena or entertainment district led to a loss of property tax values in the central city, then the argument that businesses were damaged would have merit. If, however, one observed that business properties in the central city remained at the same proportion relative to the county (or even increased) then it would appear the arena if it had any effect, would have had a positive impact on businesses. To examine this issue in greater detail, we focus on several cities as examples below.

Cleveland, Ohio

Cleveland's lost almost half of its residents from 1960 through 2010 (from it apex of almost a million residents) and by 2010 was the second-poorest city in the United States.[7] As this trend was unfolding Cleveland and Cuyahoga County supported efforts to build sport facilities in the downtown area and to expand and enhance commercial activity. Table 1 illustrates the value of commercial property in Cleveland and Cuyahoga County. It is notable that as the effects of the property valuation crash had worked through the region that commercial property values in Cleveland accounts for

[5] Rosentraub, M. S. (2010) *Major League Winners: Using Sports and Cultural Centers for Economic Development*, Florida: CRC Press/Taylor & Francis; Glaeser, E. L. & Kahn, M. E. (2001) "Decentralized Employment and the Transformation of the American City," Brookings-Wharton Papers on Urban Affairs, 1-63, http://muse.jhu.edu/journals/brookings-wharton_papers_on_urban_affairs/toc/urb2001.1.html, accessed February 14, 2011.

[6] Kneebone, E. (2009) "Job Sprawl Revisited: The Changing Geography of Metropolitan Employment," Metropolitan Studies Program, Washington, D.C.: The Brookings Institution, http://www.brookings.edu/~/media/Files/rc/reports/2009/0406_job_sprawl_kneebone/20090406_jobsprawl_kneebone.pdf, accessed February 14, 2011

[7] Smith, R. L. (2010) "Census Shows Cleveland Is The Second-Poorest City In The United States," *Plain Dealer*, September 29, http://blog.cleveland.com/metro/2010/09/census_shows_cleveland_is_the.html, accessed February 14, 2011

almost a quarter of the value of commercial properties in Cuyahoga County. In 1996 the city was the location of 25.9 percent of the County's commercial property. Given the loss of population and jobs in Cleveland, the ability of the sport facilities to contribute to some degree of stabilization is valuable and helped entrepreneurs/business owners who decided to either invest or remain in Cleveland.

Table 1. Commercial Property Values in Cleveland and Cuyahoga County: Selected Years, 1996 to 2009

	Assessed Valuation of Commercial Property		Commercial Property in Cleveland As Percent Of County
Year	*Cuyahoga County*	*City of Cleveland*	
1996	$19,291,442	$5,006,055	25.9
1997	20,838,304	5,100,522	24.5
1998	21,173,385	5,375,242	25.4
1999	21,493,369	5,477,244	25.5
2000	24,341,838	5,497,881	22.6
2001	24,689,595	6,058,647	24.5
2002	24,799,145	6,031,560	24.3
2003	26,839,357	5,804,048	21.6
2004	27,318,158	5,977,142	21.9
2005	27,398,348	6,007,616	21.9
2006	30,385,440	5,939,704	19.5
2009	24,557,680	5,937,459	24.2

Sources: Annual Comprehensive Annual Financial Reports for Cuyahoga County and the City of Cleveland, various years

Columbus, Ohio

Columbus, Ohio's Arena District (Columbus Blue Jackets) was built to restore a level of residential and retail vibrancy in the downtown area, foster development, and to also encourage homebuyers and businesses to locate in the city or county as opposed to relocating to rapidly growing Delaware County (adjacent to and north of Columbus and Franklin County). The contribution of the Arena District to Columbus's goals is best illustrated with data from both Franklin and Delaware Counties. These are presented in Tables 2 and 3.

Table 2. Assessed Values in Columbus and Franklin Counties, 1996-2009

Year	Assessed Valuation All Taxable Property		Assessed Values In Columbus As Percent of Franklin County
	Franklin County	***Columbus***	
1996	$17,356,432,000	$10,027,526,000	57.8
1997	17,916,289,000	10,363,450,000	57.8
1998	18,607,705,000	10,798,912,000	58.0
1999	21,032,111,000	12,169,647,000	57.9
2000	21,698,652,000	12,614,721,000	58.1
2001	22,111,413,000	12,850,828,000	58.1
2002	24,744,179,000	14,239,292,000	57.5
2003	24,771,631,000	14,199,724,000	57.3
2004	25,232,680,000	14,380,777,000	57.0
2005	28,168,095,000	15,924,318,000	56.5
2006	28,303,349,000	15,953,576,000	56.4
2007	28,030,794,000	15,734,700,000	56.1
2008	27,999,978,000	15,597,634,000	55.7
2009	28,096,506,000	15,627,100,000	55.6

Sources; Annual Comprehensive Annual Financial Reports for Columbus, Ohio and Franklin County, 1996-2009

There was a slight decrease (see Table 2) in the concentration of property values in Columbus and that might suggest that the Arena District (which opened in 2000) had not contributed to the goals of concentrating economic activity in the city and region's largest county. However, when the outcomes in Delaware County are considered (Table 3), a more intriguing picture emerges. Property values in Delaware County as a proportion of those in Franklin County more than doubled from 1996 through 2009. This suggests that population growth in the region was concentrated in Delaware County placing substantial pressure on Columbus and Franklin County to underscore their centrality and attract and retain both economic activity and human capital. With Columbus able to preserve a robust proportion of Franklin County's property values, it is possible to observe that businesses near to the arena would have suffered far more if the facility had not been built given that growth was concentrated in Delaware County. In other words, the arena district may have stabilized the downtown where it may have been pulled out to Delaware County.

Table 3. Assessed Values in Franklin and Delaware Counties, 1996-2009

Year	Assessed Valuation All Taxable Property		Assessed Values in Delaware County As Percent of Franklin County
	Franklin County	*Delaware County*	
1996	$17,356,432,000	$1,731,993,899	10.0
1997	17,916,289,000	2,086,877,462	11.7
1998	18,607,705,000	2,246,790,221	12.1
1999	21,032,111,000	2,486,939,918	11.8
2000	21,698,652,000	3,055,766,343	14.1
2001	22,111,413,000	3,376,156,701	15.3
2002	24,744,179,000	3,577,195,696	14.5
2003	24,771,631,000	4,222,006,193	17.0
2004	25,232,680,000	4,546,613,808	18.0
2005	28,168,095,000	4,876,708,172	17.3
2006	28,303,349,000	5,817,602,967	20.6
2007	28,030,794,000	6,084,443,507	21.7
2008	27,999,978,000	6,192,729,174	22.1
2009	28,096,506,000	6,257,413,840	22.3

Sources; Annual Comprehensive Annual Financial Reports for Franklin County and Delaware Counties, 1996-2009

Minneapolis, Minnesota

Minneapolis has also concentrated on redeveloping its downtown area, and that effort has included the building of a new ballpark for the Minnesota Twins. The full effect of that facility will not be apparent for an additional year or two. The focus on downtown as a result of the Target Center (arena), the Metrodome (Twins and Vikings), and the commitment to build the new ballpark (opened in 2009) does make this city an important one to examine relative to the effect of sport facilities on efforts to concentrate economic activity in a period characterized by substantial decentralization.

Table 4 illustrates that the focus on downtown development has contributed to Minneapolis' retention of economic activity as reflected in its proportion of taxable property. Again, noting that casual effects cannot be sustained, it is equally plausible to suggest that businesses have not been hurt but might have been helped by the focus on sport facilities and entertainment venues (including restaurants and pubs) in the downtown area (see Table 4).

Table 4. Assessed Values in Minneapolis and Hennepin County, 1996-2009

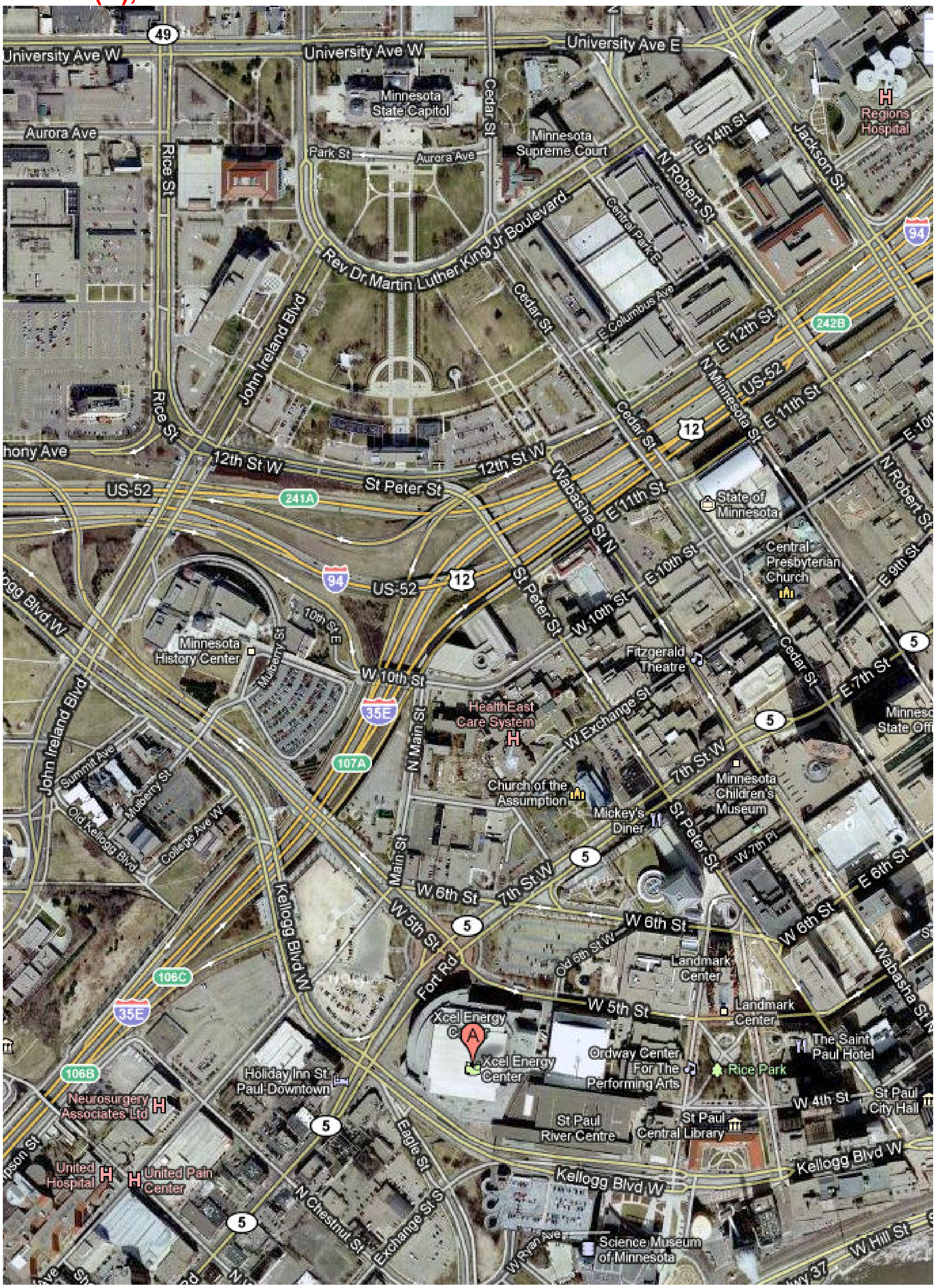
Year	Assessed Valuation All Taxable Property		Taxable Property in Minneapolis As Percent of Hennepin County
	Hennepin County	*City of Minneapolis*	
1997	$53,179,119,000	$13,540,357,000	25.5
1998	56,968,743,000	14,461,506,000	25.4
1999	61,479,574,000	15,600,971,000	25.4
2000	66,907,874,000	16,978,484,000	25.4
2001	87,231,093,000	19,370,143,000	22.2
2002	98,187,470,000	23,162,298,000	23.6
2003	107,759,072,000	25,872,329,000	24.0
2004	117,114,058,000	28,524,370,000	24.4
2005	128,984,637,000	31,090,168,000	24.1
2006	140,297,496,000	34,791,850,000	24.8
2007	148,192,547,000	37,096,566,000	25.0
2008	147,706,183,000	38,646,131,000	26.2
2009	141,853,595,000	38,118,294,000	26.9

Sources; Annual Comprehensive Annual Financial Reports for Minneapolis and Hennepin County, 1996-2009

St. Paul, Minnesota

St. Paul focused on downtown development with the building of the Xcel Energy Center (Minnesota Wild), which opened in 2000. The arena is across from a center for the performing arts, a science museum, and a convention center (St. Paul River Centre). The state capitol complex is less than 2 miles north of this development effort, but it is separated by an interchange of two interstate highways. This reduces the possibility that the government complex contributes to the development outcomes in the area where the arena and the other amenities are located (see Figure 1).

Figure 1. Development in St. Paul, Minnesota: State Capitol Center, the Xcel Center (A), and Other Amenities



Source: Google Maps

Table 5 shows that St. Paul has been able to slightly increase the value of property within the city as a proportion of value in Ramsey County. As a result it would unlikely to suggest that area businesses have been hurt by a focus on new entertainment venues in the downtown area (see Table 5).

Table 5. Assessed Values in St. Paul and Ramsey County, 1996-2009

Year	Assessed Valuation All Taxable Property		Taxable Property in St. Paul As Percent of Ramsey County
	Ramsey County	*City of Saint Paul*	
1997	$17,290,203,600	$7,567,754,900	43.8
1998	18,252,797,694	7,954,086,450	43.6
1999	19,584,452,610	8,480,678,600	43.3
2000	21,128,314,794	9,157,393,201	43.3
2001	23,358,762,400	10,164,670,200	43.5
2002	25,690,737,400	11,226,398,800	43.7
2003	28,888,902,600	12,644,215,800	43.8
2004	32,329,950,200	14,214,708,900	44.0
2005	36,745,140,200	16,403,703,100	44.6
2006	41,244,396,300	18,550,595,100	45.0
2007	45,931,488,000	21,103,230,000	45.9
2008	49,095,390,200	23,126,298,400	47.1
2009	48,377,706,900	22,802,913,000	47.1

Sources; Annual Comprehensive Annual Financial Reports for St. Paul and Ramsey County, 1996-2009

Kansas City, Missouri

Kansas City supported the building of the Sprint Center without a commitment from a major level sport franchise as the primary tenant. The facility has still been successful as a venue for entertainment, college sport events, and minor league sports since it opened in the fall of 2007. Its contribution to maintaining property values in the downtown area is illustrated by the data in Table 6.

Table 6. Assessed Values in Kansas City, Missouri and Jackson County, 1996-2009

Year	Assessed Valuation of All Taxable Property		Taxable Property in Kansas City as Percent of Jackson County
	Jackson County	Kansas City	
2001	$7,313,582,131	$5,185,768,000	70.9
2002	7,383,498,399	5,495,416,000	74.4
2003	7,983,821,336	5,377,533,000	67.4
2004	8,135,546,773	5,668,137,000	69.7
2005	8,867,322,697	5,917,912,000	66.7
2006	9,083,177,765	6,454,419,000	71.1
2007	9,833,611,688	6,624,214,000	67.4
2008	9,854,671,047	7,283,914,000	73.9
2009	9,302,891,464	7,387,564,000	79.4

Sources; Annual Comprehensive Annual Financial Reports Kansas City, Missouri and Jackson County, 1996-2009

Conclusions

When a new arena development occurs, particularly one that includes new additional retail and entertainment/consumption space, there may be concerns that the resulting business attracted to the new development will harm existing businesses within the city. As illustrated above, if the building of a new arena or entertainment district led to a loss of property tax values in the central city, then the argument that businesses were damaged would have merit. As our examples indicate, business properties in the central city have remained relatively equal in proportion to the county (or even increased). Thus, while some businesses might be adversely impacted by a new arena district, in the aggregate this is not the case.

PSL

Personal Seat Licenses and Other Premium Seating Options

Dan Mason and Mark S. Rosentraub

Personal Seat Licenses (PSLs) have become a topical trend in sports ticket pricing but in actuality have been used for decades. The Dallas Cowboys sold stadium bonds that were in essence PSLs when Texas Stadium was built (1971). In 1971 the team offered 40-year "seat options" that allowed fans the right to buy and sell their season's ticket rights. The bonds could not be redeemed. In 1986, Charlotte sold "charter seat rights" to demonstrate to the NBA that fans in the city were ready to financially support an expansion franchise. Fans paid $300 to $500 as a deposit for season's tickets and their fee guaranteed the purchaser the right to buy tickets to that seat for a lifetime (the deposit was applied to the season-ticket purchase). Thus this effort used the logic of the license but did not generate the same money upfront as it went towards the eventual season's ticket price.

The NFL's Carolina Panthers developed the contemporary model for PSLs in 1993. That team raised $150 million and used that money to finance construction of a new stadium. The team was able to finance a substantial portion of the cost of the stadium by selling fans the right to buy seats in the as-yet-built facility. PSL prices ranged from $600 to $5,400. The larger size of a football stadium and the popularity of the sport make it possible to raise large sums of cash from the sale of PSLs. The success in Charlotte was also related to the city's desire to demonstrate to the NFL that even as a small market it could and would financially support a new franchise.

In 1995 owners of the St. Louis Rams used PSLs to enhance the club's cash flow and to pay the relocation fee charged by the NFL. The Rams left Anaheim and in moving to St. Louis effectively removed this market from the inventory of places the NFL could place a team. In most cases when a team moves into a new market from an existing one, a relocation fee is charged. The rationale is that the other existing franchises need to be compensated for foregone expansion revenues that may have been received if the league had placed an expansion team in the market that the team is relocating to. Payment of the fee assured the Rams that they would then benefit from a relocation fee charged if a team entered the Greater Los Angeles metropolitan region. The team did not need to use the PSL income for the construction of the new stadium. Those costs were assumed by the public sector that yearned for the return of the NFL to St. Louis. (The St. Louis Cardinals had moved to Arizona for the 1988 season).

A PSL grants to its owner the right to buy tickets for all events in the facility. Those tickets, of course, are for the seats secured by the PSL (same seats for every or almost every event).[1] The rights received from a PSL will vary from facility to facility. For

[1] PSL owners at the new Cowboys Stadium and at other facilities where NFL teams played are not guaranteed the right to buy tickets for the seats they "own" for a Super Bowl. Since the Super Bowl is staged, managed, and owned

example, in most cases, PSL holders must buy season's tickets to the team or they forfeit the PSL rights. They may hold "options" to buy other events and will not risk losing the PSL if they do not purchase other events in the same seats. Sometimes fans that buy personal seat licenses receive a discount on tickets (pay less than the face value that is charged for similar seats for which a PSL has not been purchased). PSLs are often sold before a new facility is built so the team has some funds to build the stadium before it is built. The revenue received can then be used to defray the costs of constructing the new facility. Table 1 provides an overview of the NFL stadia that have used PSLs and Arenas where the PSL concept has been used.

Table 1. Timeline on the Use of PSLs in The NFL and NHL

Year Venue Opened	Team	Name of Program
1995	St. Louis Rams	Personal Seat License
1996	Carolina Panthers	Personal Seat License
1998	Baltimore Ravens	Personal Seat License
1999	Toronto Maple Leafs and Raptors	Personal Seat License
1999	Cleveland Browns	Personal Seat License
1999	Tennessee Titans	Personal Seat License
2000	Columbus Blue Jackets	Personal Seat License
2001	Pittsburgh Steelers	Seat License
2002	Houston Texans	Personal Seat License
2002	Seattle Seahawks	Charter Seat License
2003	Chicago Bears	Personal Seat License
2003	Green Bay Packers	Personal Seat License
2003	Philadelphia Eagles	Stadium Builder License
2004	Cincinnati Bengals	Charter Ownership Agreement
2005	Charlotte Bobcats	Personal Seat License
2009	Dallas Cowboys	Seat License
2010	New York Giants	Personal Seat License
2010	New York Jets	Personal Seat License

As mentioned above, the Carolina Panthers were able to raise $150 million in after tax revenue from their sale of PSLs[2]. The New York Giants and the New York Jets,

by the NFL, the league allocates tickets and locations according to its policies and practices. This has meant that many, but not all, PSL holders can buy tickets to Super Bowls held in the team's facility, but the seat locations vary.

[2] Ostfield, A. (1995) Seat license revenue in the National Football League: Shareable or not? *Seton Hall Journal of Sport Law*, 5, 599-610

together, raised more than $500 million for their new stadium. Clearly fans are willing to pay fees in advance of games being played for the right to be assured they can buy seats for games in the future.

These purchases raise two important points or observations.

First, the scale of the investment has led to the creation of secondary markets as fans look at their PSLs as investments and assets that could be sold if they wanted to liquidate their investment. Of course the value of their investment rises and falls with the quality of play, and demand for tickets. In some markets, however, where there are very long waiting lists to buy tickets, the value of a PSL could increase. Where this occurs, there will be a greater willingness to pay for the PSL as owners will view their purchase as an asset and that its future sale might produce a favorable return. Typically PSLs cost from a few hundred dollars to tens of thousands of dollars.

Second, and most importantly for Edmonton, regardless of the future value of a PSL, the pre-payment generated are nothing more than the present value of a per ticket surcharge.[3]

> In other words, fans purchasing PSLs simply impute or add that value to the price of the ticket. The team could dispense with PSLs and charge higher ticket prices, or they could charge a PSL and lower ticket prices. What cannot be done is to charge a PSL and raise ticket prices above what the market will support for an overall ticket price. Ticket prices will increase when the Oilers move from Rexall Place to a new arena. That is to be expected since the new facility will offer more value to fans. The increase will be MORE if PSLs are not used, and LESS if PSLs are used.

For this reason it is recommended that any city negotiate its deal with a team INDEPENDENT of the team's decision to use PSLs or not. Once that deal is negotiated, it is best to leave the matter of the team's financial contribution to the team. It can front load the assessment to fans through the use of PSLs, or backload it by raising ticket prices to cover their cost for the new facility. In the end, the ticket price is the same. What varies is only how the team wishes to manage its cash flow.

[3] The role of PSLs in financing and ticket pricing is developed more fully in Winfree, J. & Rosentraub, M. S. (2011) *Sports Finance and Management: Real Estate, Entertainment, and the Remaking of The Business*, Florida: Taylor & Francis/CRC Press.

The market that exists for the PSL and the ticket is the same. For the team or a city, the PSL generates more "up front" cash. In the long run, however, in the absence of a secondary market value for the PSL, the total cash (higher ticket prices v. PSL + slightly lower ticket prices) is the same. The present value of the PSL does improve a team's cash flow and is therefore more beneficial. The risk or drawback is that asking, in advance, for money, as opposed to a payment each year, can alienate some fans. However, in markets where there is a strong demand for season's tickets (or a long waiting list), some fans may view the PSL as the cost of finally getting their tickets. The issue is whether that number outweighs the number of alienated fans.

Colleges and universities have also started issuing PSLs, although sometimes they are not identified as "contributions." Often colleges will require fans to make annual contribution that is a de facto PSL. Even when colleges do not have this system those individuals who make large donations receive the opportunity purchase the best seats for games. Thus the donation becomes a sort of PSL. Regardless of whether it is part of an official PSL program or not, a portion of these annual pre-payment is treated as a tax deduction (contribution to a non-profit organization) under the existing US Internal Revenue Code.

One question that arises is why do teams have PSLs? In other words, why don't teams just simply raise ticket prices instead of making fans pay for a PSL and then pay for tickets? There are a couple of possible explanations for this. One reason is that revenue generated from PSLs is often treated differently than other revenue. For example, in the NFL revenue from PSLs is not shared with other clubs and the players. Ticket revenue, however, is included in the revenue sharing plan. Teams are likely to only issue a PSL when they are building or renovating a stadium.

Another possible explanation for the increasing use of PSLs is two-part pricing also called a two-part tariff. Two-part pricing also is used by businesses such as Sam's Club or Costco. Customers pay a membership fee and then get a discount on products. In sports, this happens at places like golf courses. Golfers can pay per round of golf, or they can typically pay a yearly membership. Why would a store, golf course or sports team do this? Because it can increase the quantity sold and the revenue that the firm or team receives. If there is no PSL, fans will pay for tickets until their willingness to pay is at least as great as the ticket price. With a PSL, however, teams can capture the entire willingness to pay for the entire season.

Suppose a team prices tickets at the optimal price and a typical fan buys three tickets, but at a discounted price the fan will buy eight tickets. Clearly the fan is happier when the tickets are discounted. To buy tickets at the discounted price, however, the team can charge for a PSL. The price of this PSL would be equal to the sum of the differences of willingness to pay and the discounted price. Therefore, the team receives more revenue with a PSL and lower ticket prices than with higher ticket prices. Since most NFL games are sold out, the two-part pricing explanation seems unsatisfactory. Since the NFL does not really need to sell more tickets, the revenue sharing explanation may be more appropriate.

In addition, PSLs can also act as a way of buffering changes to demand. Because the failure to renew season's tickets results in the forfeiture of the PSL, the PSL effectively "locks in" season's tickets buyers who might be considering not renewing their tickets on a year-by-year basis. Teams have tried different ways to initiate PSLs. One informative example involves the New York Jets/Giants stadium. Even though the Jets and Giants share the same stadium, they sold their PSLs in different ways. Like a vast majority of teams with PSLs, the Giants set prices for their PSLs, and some fans were not happy. Understandably, fans can get angry when they must pay just for the right to buy a ticket. While Jets fans may not have been happy about the PSLs, they club handled things differently. For some of the best seats the Jets sold the PSLs using an auction. Since demand for the PSLs was not entirely known, an auction gets fans to pay at least close to their willingness to pay. Therefore, they generated more revenue for some of the premium seats. Also, fans seemed less dissatisfied because the Jets let the market set the price.

PSLs can also be thought of as a futures market for tickets. The PSL is itself an option. The fan buys the PSL or pays an option that means they secure seats for the future at a price that is lower than it would be if the PSL did not exist. If the team plays well and demand increases, the fan can sell the ticket or the PSL for a higher price and make a profit. If demand drops, the fan could own a PSL or tickets worth less that the face value of the investment.

The Present Value of the Entertainment Experience in Premium Seating

Another form of revenue generation can also be linked to PSLs and to other forms of premium seating. The logic here is to simply provide an additional level of entertainment experience or amenity that can then be used to justify an upfront payment. This will also provide a point of differentiation between forms of premium seating. An example of this occurred in Columbus, Ohio, with Nationwide arena. That facility was built with 6 party suites, 26 loge boxes, and 36 executive suites (seating 12 people). However, the facility also was also built with 16 "founder's suites" (seating 18). Effectively, there were 52 luxury suites in the new arena there but Founder's suites were originally sold for an upfront fee on a long-term lease, as opposed to the remainder of the suites that were leased on a three to five year basis. This allowed for the generation of revenue upfront that was used to pay for the construction of that arena.

However, in order to avoid the "pay me now, or pay me later" scenario described above, another strategy would be to build amenities into founders suites that would then justify the upfront payment, which could be in addition to, rather than a replacement for, a traditional lease. This could involve partnerships for naming areas of the arena, on site signage, etc. for the company leasing the suite. For example, in the Consol Energy Center, there are seven "founding partners." In exchange for this status, partners receive a signature landmark in the new arena (such as a named entry gate, suite level, or youth-oriented display such as interactive gaming areas). Partners also receive long-term category exclusivity, and use of the Penguins’ logo for marketing. Another option is to add a comforts and elements that make the founder’s suite a more desirable viewing experience that can be found in “regular” luxury suites. For example, this could involve preferential placement of the suites in the arena, and other more exclusive amenities. For example, some arenas in the US have placed microphones on the benches and make audio available in certain suites. This would add a level of viewer experience that could be available only to founders’ suites, which could result in a premium paid for that suite. That premium could be charged in advance to generate money up front.

Another consideration would relate to the rights and privileges associated with usage of the suite. This model has been employed in European stadiums. Typically, suite lessees in North American markets might only receive usage of their suites during designated events nights and times. For example, for the upcoming World Junior Hockey Championships, Rexall Place will host some events, but current suite holders must purchase tickets separately. In other words, use of the suite for this event must be purchased over and above the current lease agreement. If the current suite holder does not pick up this option, the suite will be leased to another group for that tournament. However, some new agreements in European soccer facilities include usage of the suite at all (i.e. non-event) times. This is then used as a business meeting area at all hours that can also be used for events. In structuring the lease in this way, facilities have been able to generate upfront money and charge higher lease fees. In addition, some facilities have gone one step further and used the condominium model where the user of the suite actually has an ownership stake in that space.

Going one step further, another option would be to build additional space into the suite area, with independent access from outside of the arena. This would allow for the space to be used effectively as office space, with the viewing area serving as both meeting space for non-events and as a luxury suite during games and other events. This would result in substantially higher lease fees, and could be combined with the notion of a founders' partnership, if there is a desire to generate the money in advance.