SEMINAR IN ECONOMICS: SPORTS ECONOMICS

The Development of a Professional Sports Facility: Economics, Politics, Laws, and Agreements

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How the Deal Gets Done

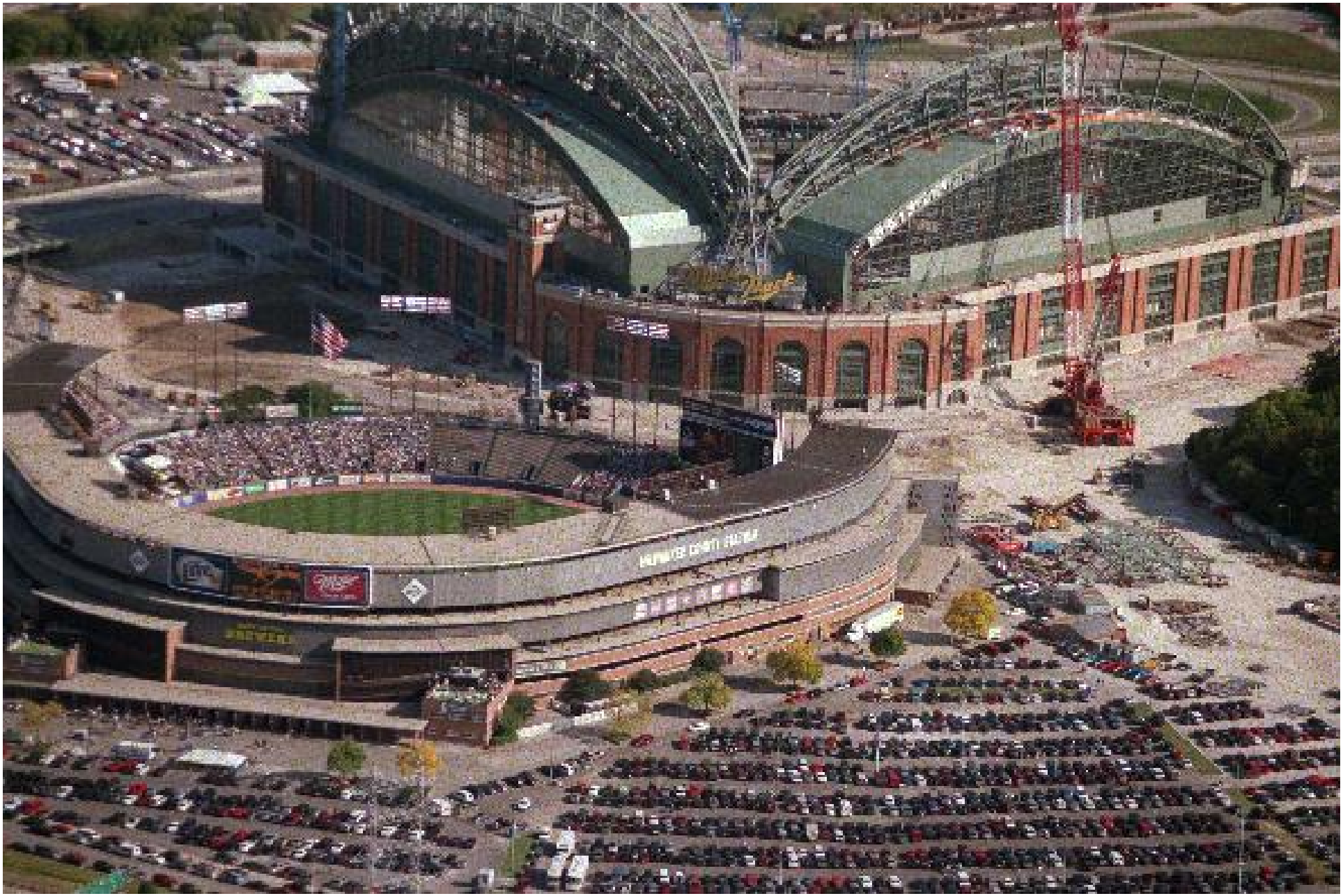
- Using the Milwaukee Brewers' Stadiums and Green Bay Packers' Stadium Analyze the Economics and Agreements Involved to Make these Deals Work
  - MAIN SOURCE: PAUL M. ANDERSON & WILLIAM S. MILLER, MAJOR LEAGUE LEASES: AN OVERVIEW OF MAJOR LEAGUE FACILITY LEASES AND HOW THEY ARE NEGOTIATED (2001) - Mequon, WI: Front Office Publications.

Milwaukee Brewers

- County Stadium
  - Built 1952 by County for $7.7 M
    - To attract Boston Braves
  - Problems →
    - 1. lack of skyboxes other revenue sources
      - part of the reason the Packers stopped playing in Milwaukee
      - too few concession areas
    - 2. number of obstructed view seats
    - 3. industry shift to smaller capacity in late 80s and early 90s

- State of Wisconsin Legislative Reference Bureau (1996, January). Stadium finance: Government's role in the 1990s. Informational Bulletin 96-1.


BALLPARKS



Milwaukee Brewers New Stadium

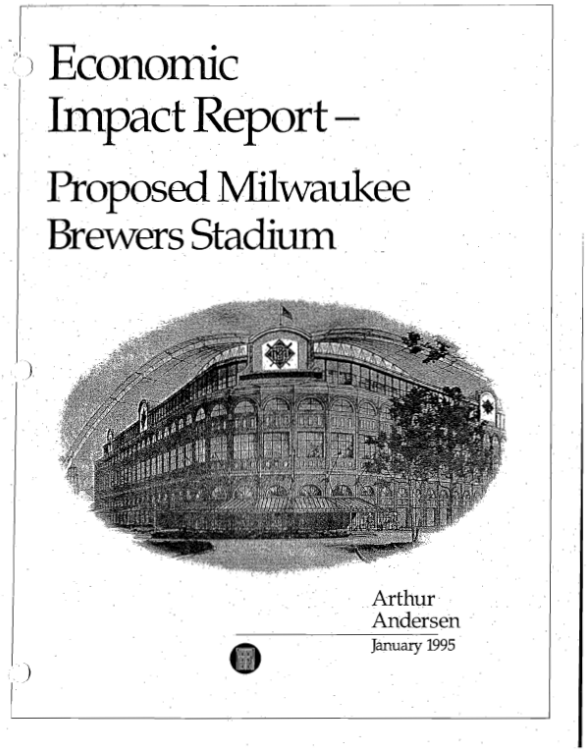
- 1987 → GMC task force studies renovating County Stadium or building new ballpark
- 1988 → task force recommends new stadium to be completed in 1992
  - renovation = $100 M while new stadium $120 M ($179 M in 2001)
- 1990 → Brewers approve site for new stadium, construction moved to 1994
- 1994 →
  - Brewers say they need convertible roof and public assistance for new stadium
  - State Senate and Assembly vote to amend state constitution to allow new lottery games to finance sport facilities
  - Brewers commit $60-90 M toward stadium

Economic Impact Report → Proposed Milwaukee Brewers Stadium

- Prepared for GMC **on behalf of Wisconsin Governor's Stadium Commission** (not for or by the team)

- Prepared by CPA/JDs at Arthur Andersen in January 1995

- Impacts
  - Direct (economic)
    1. focus on direct not multiplier effects
    2. annual spending $105.2 M
    3. 4-year construction related spending $540.5 M
    4. state and local tax annual increases $3.4 M
    - TOTAL = @ $650 M (2011 $964 M)
  - Indirect
    1. national image
    2. showcase for WI technology
    3. anchor redevelopment



Milwaukee Brewers New Stadium

- 1995 →
  - January → voters reject lottery to finance stadium
  - April → Governor, Milwaukee County Executive & Mayor announce MOU for 30 year lease and $90 M commitment from team for new facility. Public financing includes one-tenth of one percent sales tax and 1% hotel tax for other $160 M → expected completion 1999
  - State Assembly approves plan 52-47
  - October 6 → State Senate approves 16-15 (deciding Senator Petak recalled June 4, 1996)
- 1996 → stadium tax takes effect and District Board approves financing and site plan (digging begins on October 21)
- 1999 → 3 workmen killed in Big Blue accident (damage estimate $100 M)
- 2001 → completion of Miller Park

Miller Park

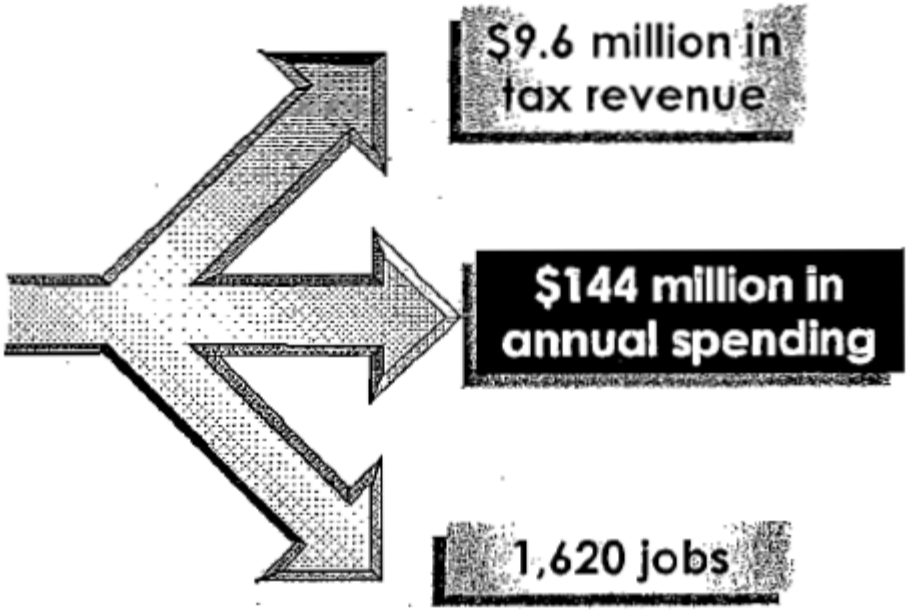
- Final Cost → @$392 M ($100 M+ due to accident)
  - Brewers contributed $90 M
  - $72 M of infrastructure costs were split by the city, county and state.
  - A five-county stadium district was created to cover the remaining costs. A 0.1 of a cent sales-tax increase was levied in this stadium district to pay for Miller Park → could expire by 2017

Green Bay Packers

- Renovation of Lambeau Field
  - Soon after won Super Bowl in 1997 projections by team and NFL showed that without a refurbished stadium, and because Green Bay is the smallest market in the NFL, team would lose money starting in 2000
  - Could not compete with larger market teams

Economic Impact Report

- Packers commissioned study done by PricewaterhouseCoopers and CSL International (2000)



Green Bay Packers

- In September 2000, Brown County voters approved a 0.5 cent sales tax to help fund renovation of the stadium
  - The tax proceeds are being used to pay off $160 M of the renovation costs. The tax was originally projected to run through 2018, but it could be completed by 2011.
  - At the time the Brown County voters approved the sales tax increase in 2000, 53 Wisconsin counties already had the 0.5 cent sales tax
- The Packers paid $135 M towards the renovation.
  - The Packers got this money from a combination of an NFL loan, $20 M in stock proceeds, and a one time user fee on season tickets.
- Total = @ $295 million

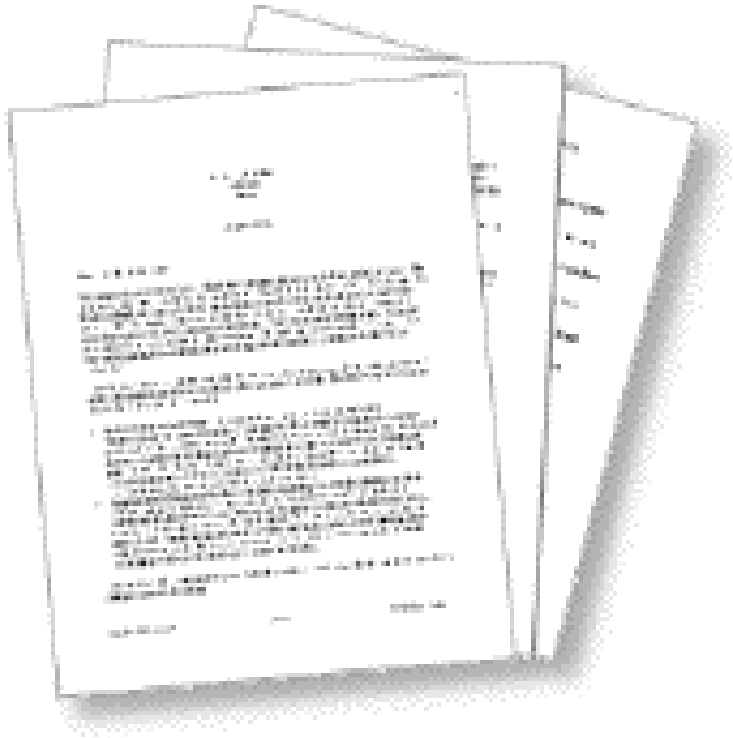
Deals

- Lambeau Field Lease Agreement, by and among Green Bay – Brown County Professional Football Stadium District, City of Green Bay, Wisconsin, and Green Bay Packers, Inc., dated as of January 1, 2001.

- Amended and Restated Miller Park Lease Agreement by and between Southeast Wisconsin Professional Baseball Park District and Milwaukee Brewers Baseball Club, Limited Partnership, dated as of June 30, 2004.

The Agreement

- Often First Letter Agreement or Memorandum of Understanding
- “Lease” – Generic Term
- Names
  - Lease / License / Sub-Lease / Management, Development, Use, Operating Agreement
  - All these together can become the lease agreement
- Length
  - Currently ➔ @100 pages per document



Brewers LEASE

- (1) Started with 20 page lease in April of 1970
- (2) Memorandum of Understanding, 8/19/95 (11 pgs. + 16 pgs. of exhibits)
- (3) All the CURRENT LEASE
  1. Interim Lease Agreement, 12/31/96 (11 pgs. + 17 pgs. of exhibits)
  2. Construction Administration Agreement, 12/31/96 (28 pgs.)
  3. Shared Ownership Agreement, 12/31/96 (20 pgs.)
  4. Ground Lease, 10/21/96 (18 pgs. + 30 pgs. of exhibits)
  5. *Non-Relocation Agreement, 12/31/96 (7 pgs.)* → Amended and Restated, 1/1/04 (7 pgs.)
  6. *Lease Agreement, 12/31/96 (56 pgs. + 40 pgs. of exhibits)* → Amended and Restated, 6/30/04 (53 pgs. + 50 pgs. of exhibits)

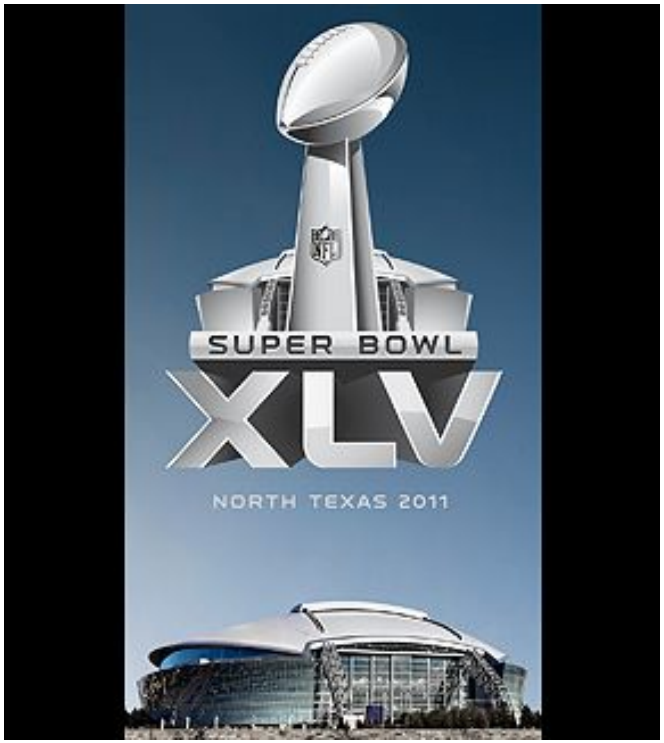
- TOTAL = 364 pages

Who Owns the Facility?

- Keep in mind virtually no team owns the facility

- They are the lessor → Community is the landlord
  - New Cowboys Stadium =
  - City → $325 M +
  - NFL → $150 M +
  - Jerry Jones → more than $500 M =
  - TOTAL = $1.3 billion (70% private)
    - Still → City owns the facility

- The terms that are included in a sports facility lease are important to both parties as they not only
  - (1) secure their legal responsibilities and liabilities,
  - (2) provide for revenue generation potential,
  - (3) and retention methods necessary to protect and entice both parties into signing the agreement



- Miller, W.S. (1998, October). Special report: Sports facility issues: Part two: Lease terms, legal issues surrounding sports facilities, & sports franchise ownership. *For The Record* Online, 1, http://law.marquette.edu/cgi-bin/site.pl?2130&pageID=206

Who Owns the Facility?

- Facility owner
  - Must warrant it is the owner of the facility
  - Establishes the extent of the facility owner's rights to use of facility or facility property during the agreement

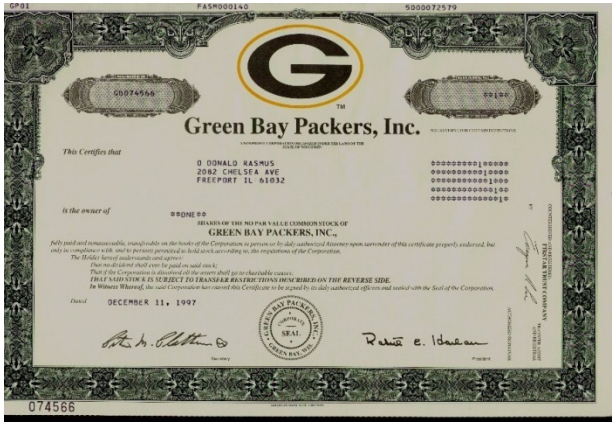
  - Examples
    - Brewers, Recital C, pg. 1, Art. 3, pg. 15

Southeast Wisconsin Professional Baseball Park District

Who Owns the Team?

- Corporation / Single Owner / Partnership
- Often hard to tell

- Examples
  - Brewers, Party Statement & Recital D, pg. 1 → LTD
  - Packers, Party Statement & Recital D, pg. 1 → CORP



Green Bay Packers, Inc.

This Certifies that

O DONALD RASMUS
2082 CHELSEA AVE
FREEPORT IL 61032

Is the owner of

ONE

SHARES OF THE NO PAR VALUE COMMON STOCK OF
GREEN BAY PACKERS, INC.,

DECEMBER 11, 1997

074566

Public Approval of Funding

- Since 1995
- 29 communities with 36 referendums
  - 78% successful
    - often when initially unsuccessful went back and still approved financing
  - 29 who passed → approval range from 51-80-%
  - 7 who denied → from 40-46%

Mondello, M., & Anderson, P. (2004). Stadiums, arenas, and sports referendums: A comparative analysis of cities involved in the stadium game. *International Journal of Sport Management, 5*, 43-71

Statutory Authority for Funding

Electronic reproduction of 2009–10 Wis. Stats. database, current through 2011 Wis. Act 15 and April 30, 2011.

CHAPTER 229

PUBLIC INSTITUTIONS

Statutory Authority for Funding

- (3) Public Entity/Authority
- Baseball Park District Legislation (Wis. Stat. § 229.64, et. seq. (2011))
  - Southeast Wisconsin Professional Baseball Park District
  - (1) The legislature determines that the provision of assistance by state agencies to a district under this subchapter, any appropriation of funds to a district under this subchapter and the moral obligation pledge under s. 229.74 (7) **serve a statewide public purpose** by assisting the development of a professional baseball park in the state for providing recreation, by **encouraging economic development** and tourism, by reducing unemployment and by bringing needed capital into the state for the benefit and welfare of people throughout the state. The legislature determines that the taxes that may be imposed by a district under subch. V of ch. 77 are special taxes that are generated apart from any direct annual tax on taxable property.

    (2) The legislature determines that a district including a county with a population of more than 600,000 **serves a public purpose** in that county and all counties that are contiguous to that county by providing recreation, by **encouraging economic development** and tourism, by reducing unemployment and by bringing needed capital into the multicounty area for the benefit of people in the multicounty area.

- SAME FOR PACKERS
  - Football Stadium District Legislation (Wis. Stat. § 229.820, et. seq. (2011))
  - Green Bay/Brown County Professional Football Stadium District

Legality of Funding

- Plans for public funding of sports facilities often face legal challenges
  - Libertarian Party v. State, 199 Wis.2d 790 (1996)
    - Political Part sued over Wisconsin Stadium Act providing for the formation of local baseball park districts and empowering those districts to build and maintain professional baseball park facilities

    - Legislature stated the act would "serve a statewide public purpose by assisting the development of a professional baseball park in the state for providing recreation, by encouraging economic development and tourism, by reducing unemployment and by bringing needed capital into the state for the benefit and welfare of people throughout the state."
    - Court → "While some private benefit will result, the project is sufficiently public in nature to withstand constitutional challenge. Therefore, we conclude that the Stadium Act authorizes constitutionally permissible expenditures for a public purpose" (812-813)

Why Fund Sports Facilities?

- In their lawsuit against the Sonics the City of Seattle argued
  - presence of the Sonics in Seattle creates large financial benefits for the City and for local businesses, including. . .
    - income generated from lease payments;
    - ticket sales;
    - concessions and novelty sales;
    - spending at local restaurants and hotels. . .;
    - parking;
    - spending on advertising and merchanding; . . .
    - taxes paid by the team;
    - revenues associated with Sonics players living in the Seattle area; . . .
    - revenues from media covering the team's games. . .and
    - numerous non-quantifiable benefits. . .including. . .enhanced economic growth and ancillary private sector development spurred by the operation of a professional sports facility; convenient entertainment options for local families; facilities for youth activities; charitable events sponsored by the team and by individual players; advertising opportunities for local businesses; increased inducements for businesses to locate in Seattle, and for existing businesses to remain; and enhanced community pride, self-image, exposure, reputation, and prestige.
  - City of Seattle, Complaint for Declaratory Relief, 2007 WL 5262606

Overall Costs for new facilities

- Costs for new facilities have gone up but not as much in real dollars
  - AVERAGE COST | Stadiums $400 M \ Arenas $250 M

    - Total Spent on New Facilities (converted to 2011 dollars)
    - 1950s: $33 M
    - 1960s: $175 M
    - 1970s: $313 M
    - 1980s: $209 M
    - 1990s: $307 M
    - 2000s: $436 M
      - (recent increase due to Cowboys $1.3 B, Yankees $1.5 B, Mets $860 M)

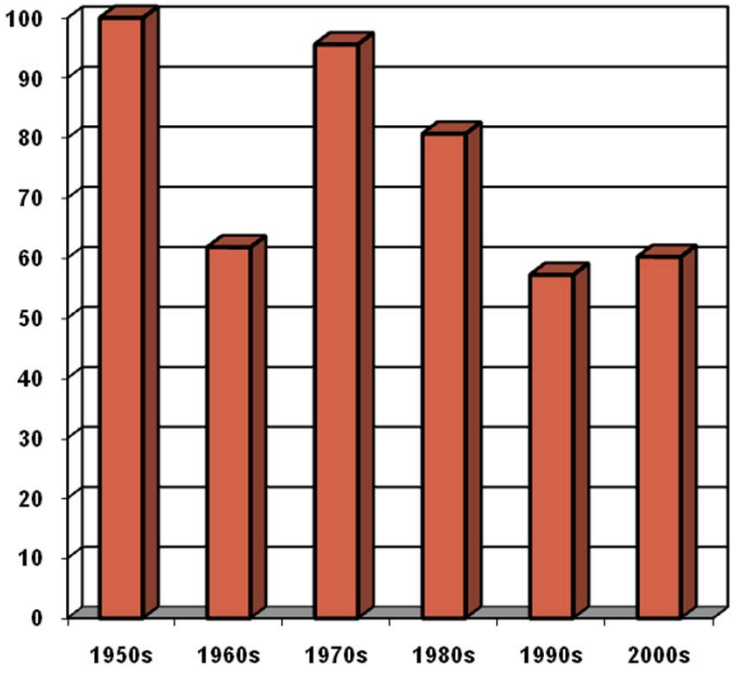
  - Stadiums 2010
    - New York Jets/Giants - New Meadowlands 1.4 B
    - Pittsburgh Penguins – Consol Energy Center $321 M
    - Minnesota Twins – Target Field $544 M

- Sources: Keating, R.J. (1999); NSLI, *Sports Facility Reports*.

Public Funding Portion

- Percentage of facility costs contributed by public funds
  - 1950s = 100% ← #1
  - 1960s = 61.8%
  - 1970s = 95.6% ← #2
  - 1980s = 80.7% ← #3
  - 1990s = 57.2%
  - 2000s = 60.2 %

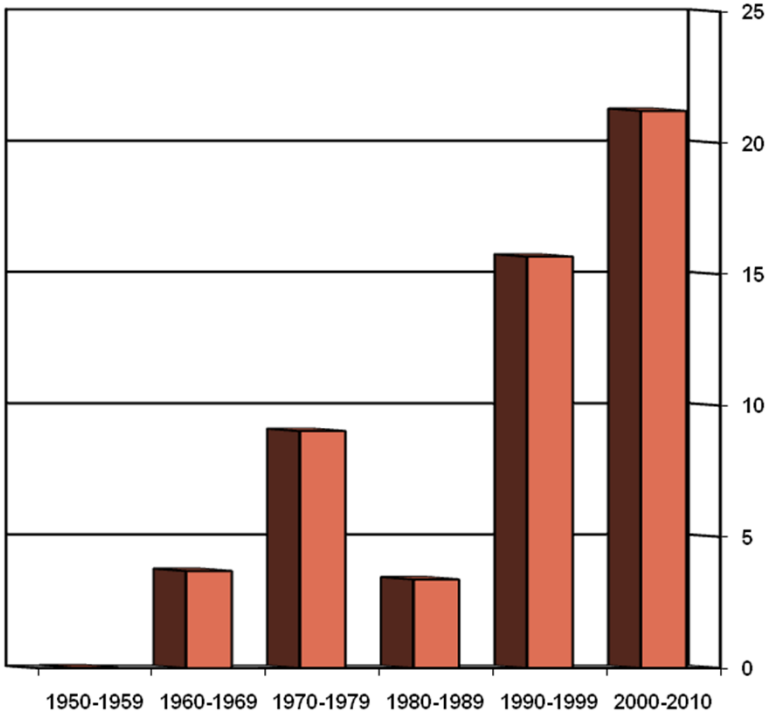
- Total $ amount may be increasing but percentage is not



Overall $ Spent on New Facilities in 4 Major Professional Sports

- 1950-1959 = $255 M
- 1960-1969 = $3.91 B
- 1970-1979 = $9.03 B
- 1980-1989 = $3.38 B
- 1990-1999 = $15.67 B
- 2000-2010 = $21.22 B

  - estimates converted to 2010 dollars



- Sources: Keating, R.J. (1999, April 5). Sports pork: The costly relationship between major league sports and government. Cato Institute: Policy Analysis No. 339; National Sports Law Institute, *Sports Facility Reports*; Siegfried, J, & Zimbalist, A. (2000, Summer). The economics of sports facilities and their communities. *Journal of Economic Perspectives, 14*(3), pp. 95-114.

History of new facilities

Time Period	New Facilities	Renovated Facilities	Total Number of Teams	% of Teams Affected
1950s	8	1	46	20%
1960s	25	4	51	57%
1970s	35	10	81	56%
1980s	21	7	91	31%
1990s	56	11	102	65%
2000s	39	10	122	40%

- 85% of current teams are in new or renovated facilities since 1990

- Sources: Keating, R.J. (1999); NSLI, *Sports Facility Reports*.

Reality Today

- Every sports facility project is a public/private partnership
  - Public Sector often pays most for the individual facility
    - Total Public in put in NFL since 1990 = @$4.46 Billion
  - Private Sector (owner) always contributes
    - Total Private Input in NFL since 1990 (as of 2009) =@$5.14 Billion
  - 2000s
    - NBA/NHL arena = 70% public / 30% private
    - NFL/MLB stadium = 55% public / 45% private

Funding in the Lease

1. Public portion not often reflected in lease agreement
2. Could be separate development agreement/ debt management agreement / statutory provision
3. Difficult to tie team to public funding

Funding issue

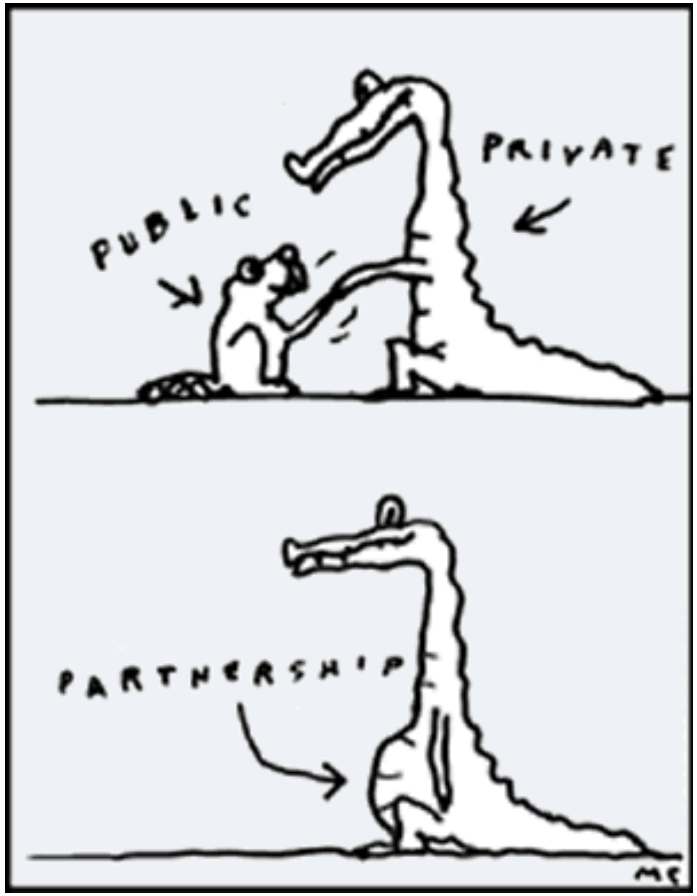
- Bengals Lease Example
  - Recital A. By public vote on March 19, 1996, the citizens of Hamilton County passed a one-half percent increase in the Hamilton County general sales tax to *keep competitive and viable major league football and baseball teams in Cincinnati*, Ohio by, among other things, the construction of a new football stadium in Hamilton County.

- Performance lawsuit (2003)
  - $458 m stadium (95% public funding)
  - 13 seasons never a winning record
  - Suit claiming team is not fulfilling its end of the bargain
  - Claim dismissed → City does not own team and "competitive" cannot be defined by a court

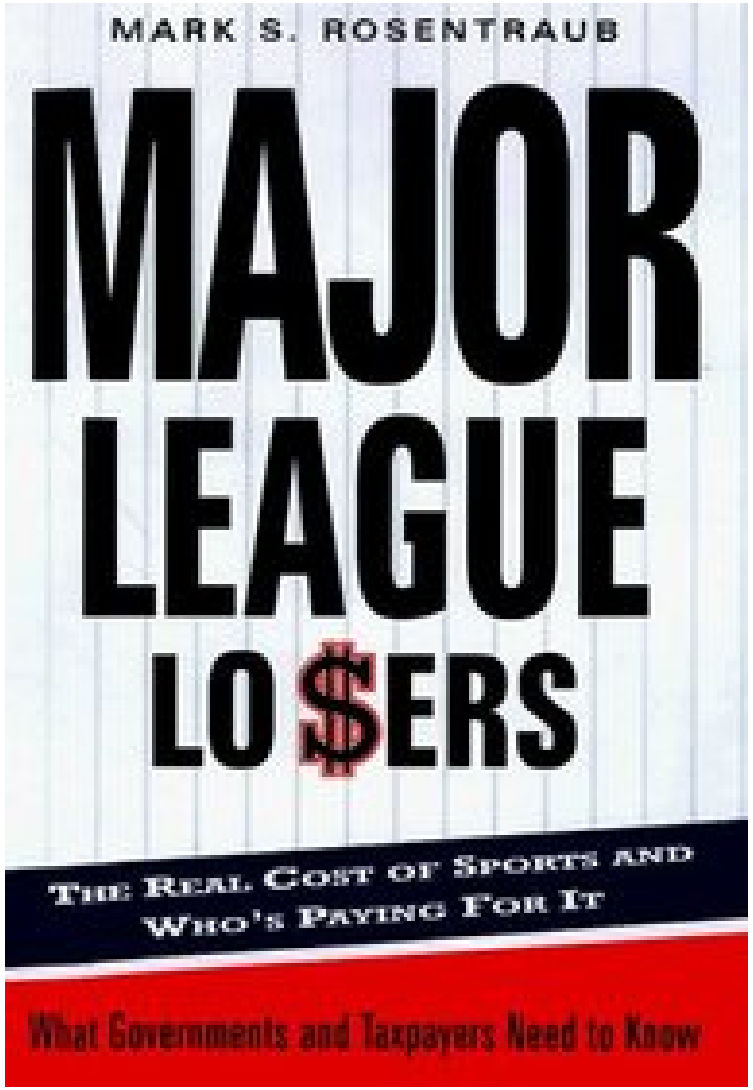
Partnership

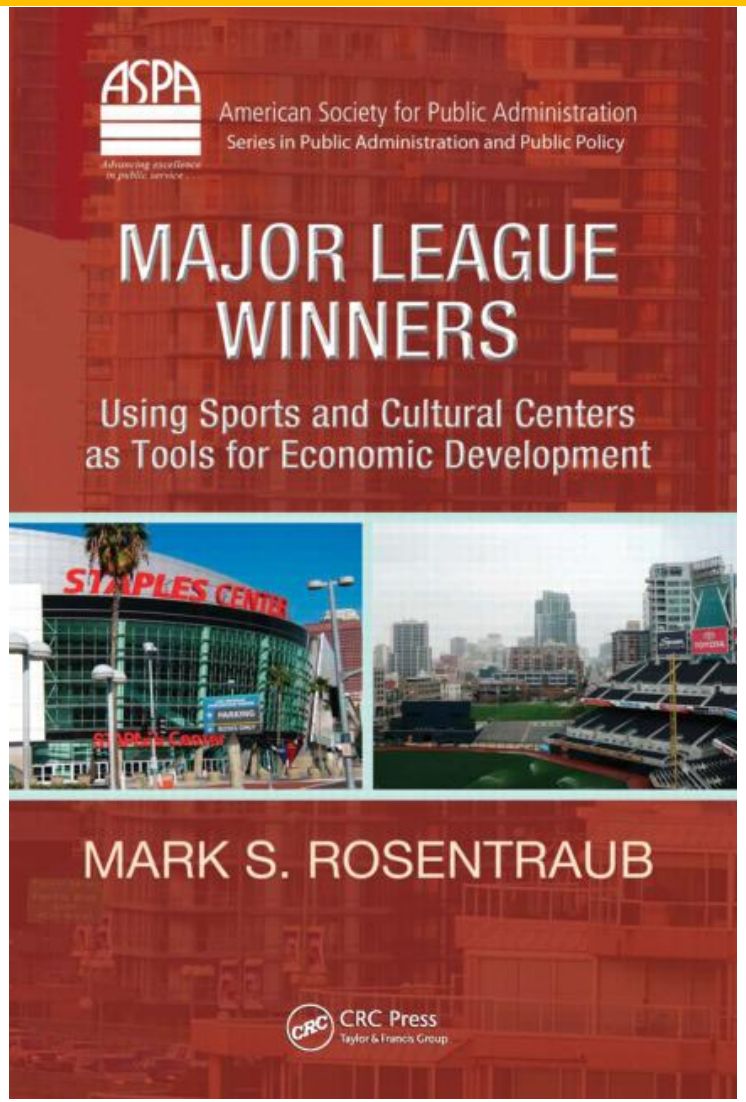
- Public / Private Partnership Funding Facility

- Example
  - Packers
    - Article IV, pgs. 16-18



Confusing Economics





Economic Impact

RECITALS:

A. The presence and conduct of professional baseball in the State of Wisconsin (the "**State**") stimulates economic activity in the State and, therefore, the creation of a modern state-of-the art baseball stadium facility for the playing of professional baseball will be beneficial to the State.

RECITALS:

A. The presence and conduct of professional football in the City, Brown County, Wisconsin (the "County"), and the State of Wisconsin (the "State") stimulates economic activity in the City, County and State and, therefore, the expansion and redevelopment of Lambeau Field into a modern, state-of-the art football stadium facility for the playing of professional football will be beneficial to the City, County and State.

Economic Impact of Redeveloped Lambeau Field

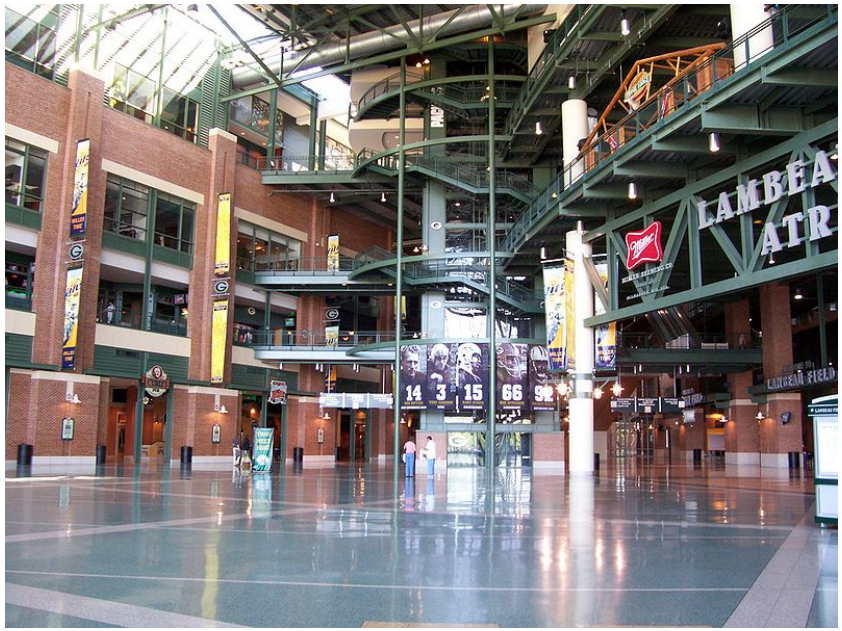
- Commissioned by the Green Bay/Brown County Professional Football Stadium District (9/22/10)

- In 2009
  - Total economic impacts attributed to the Packers and Lambeau Field are approximately $141 million, in addition to 760 jobs and $80.6 million in wages
  - Total tax revenues estimated at $5.7 million
  - Impacts from off-site spending by visitors to training camp and regular and pre-season games estimated at $131 million, and 1,670 jobs.

  - Total = @$277 M in 2009 ➔ cost of improvements = $295 M

🡐 Before renovations

After renovations ➔


LAMBEA
ATR
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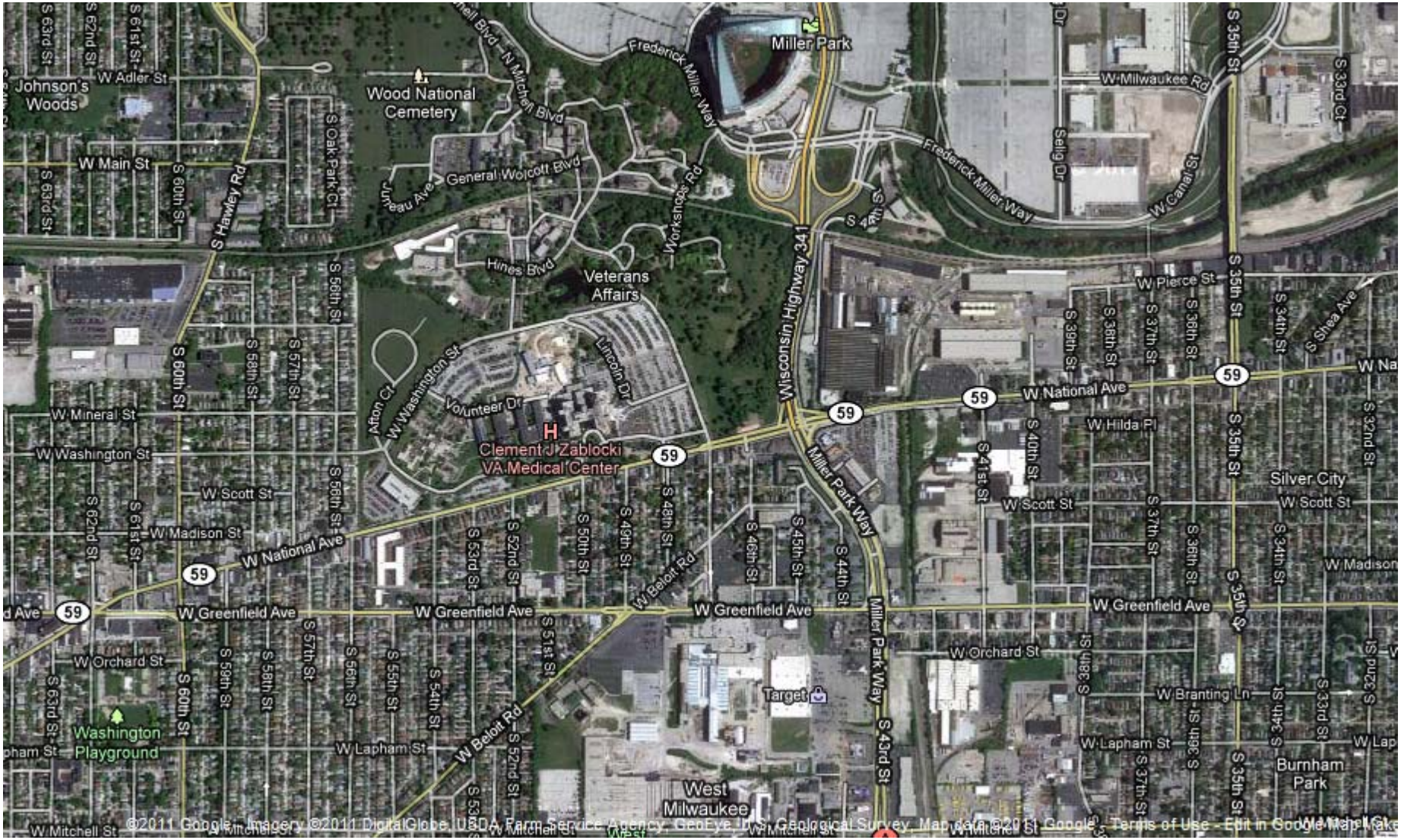
LAMBEAU FIELD

Economic Impact of Miller Park

- Study by the Institute for Survey and Policy Research at the University of Wisconsin-Milwaukee (2007)

  - **The direct and indirect** economic impact by visitors from outside the area, a majority of whom came from outside the state, resulted in $327.3 million in increased spending and the creation of 4,683 additional full- and part-time jobs
    - **direct economic effects** of the ballpark and the Brewers included the total yearly spending of those attending games at Miller Park from outside the five-county area, as well as the resulting local employment and earnings. The study says that figure is $292.5 million.
    - **indirect effects** included the total operating expenses of the Brewers, including administrative expenses, as well as the earnings of club employees. That figure is estimated at $34.8 million yearly.

  - **Spectators from outside** the five-county area also contributed $10.2 million in added sales tax revenue and $3.9 million in added income tax revenue.


Miller Park
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Wood National Cemetery
Johnson's Woods
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W Main St
S Hawley Rd
S Oak Park Ct
General Wolcott Blvd
Jeau Ave
Hines Blvd
Veterans Affairs
Workshops Rd
Wisconsin Highway 341
W Milwaukee Rd
Selig Dr
W Canal St
S 35th St
W Pierce St
S Shea Ave
W National Ave
W Hilda Pl
Silver City
W Scott St
W Mineral St
W Washington St
W Washington St
Afton Ct
Volunteer Dr
Lincoln Dr
Clement J Zablocki VA Medical Center
Miller Park Way
W Madison St
W Greenfield Ave
W Orchard St
W Branting Ln
W Lapham St
W Belot Rd
Target
Washington Playground
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What Does the Community Get?

- Types of Rent
  - No Rent
  - Minimal Rent ($1)
  - Fixed Rent
  - Per Game/ Ticket/Attendance Dependant
  - Percentage Rent
  - Fixed Plus Percentage
  - Fixed or Percentage
  - Fixed With Deductions or Offsets
  - Rent Credits

- Merely is Part of Total Allocation of Payments
  - Examples
    - Brewers, Schedule 1
    - Packers, Article VI, pgs. 22

Other Revenue Streams

- Many Leases do not specifically define revenue streams
  - Focus on Allocation and Payment

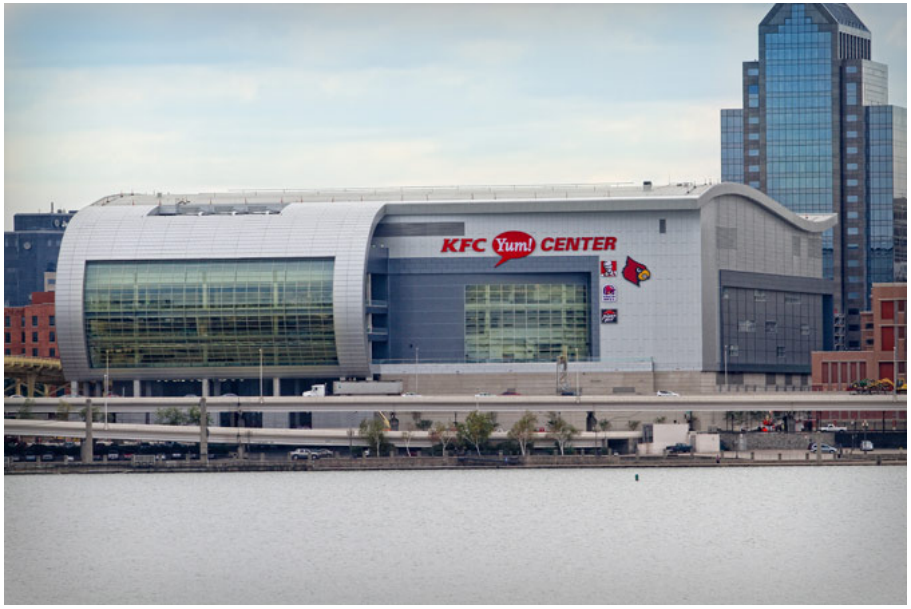
- Streams
  1. Tickets – often not large revenue stream
  2. Parking – large
  3. Premium Seating – can be lucrative
  4. Concessions, Novelties, Retail
  5. Media Revenues
     - To broadcast team events
     - Usually team owns but portion back to facility owner
  6. Advertising
     - Opportunities to advertise in particular areas of facility
  7. Sponsorships
     - Company paying for right to be associated with a particular event
     - New points of access (seats, entrances, etc.)
  8. Seat Licenses
     - Seat deposits
     - Permanent seat licenses

- Lambeau Field Revenues
  - Bricks

Naming Rights

Often not part of revenue sharing

Packers, Section 3.7: Naming Rights, pgs. 15-16



Artist's rendering of the Overstock.com Coliseum signage

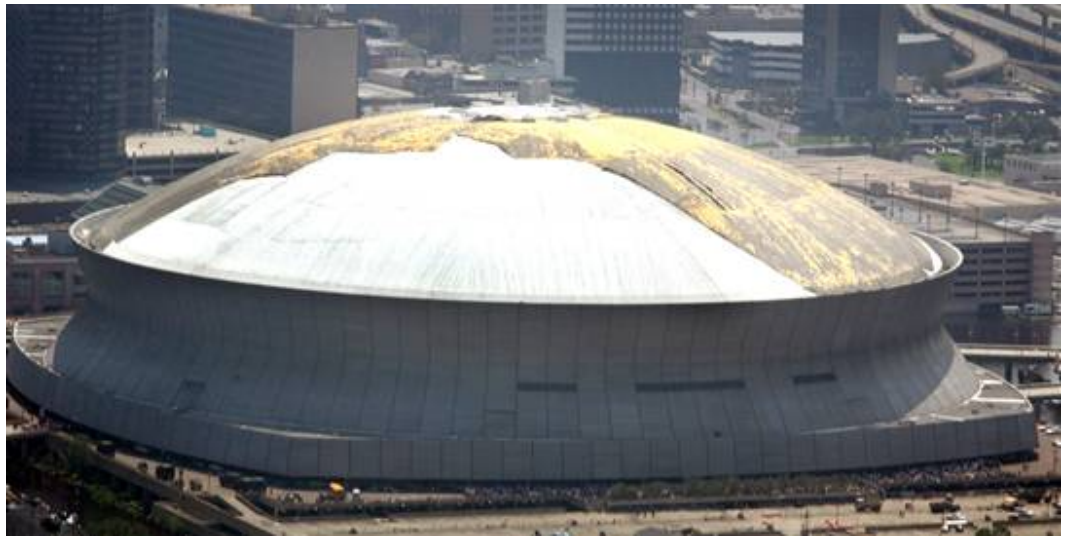
Expenses

- Typical Categories
  - Equipment
  - Operational Expenses
    - Staffing / maintenance / security / medical services
  - Revenue Streams
    - Expense of maintaining revenue streams (Often forgotten)
  - Taxes
    - Often attempt to avoid but must prepare for assessments
- Examples
  - Packers, Maintenance: Article XIV, pgs. 45-50

Force Majeure \ Acts of God

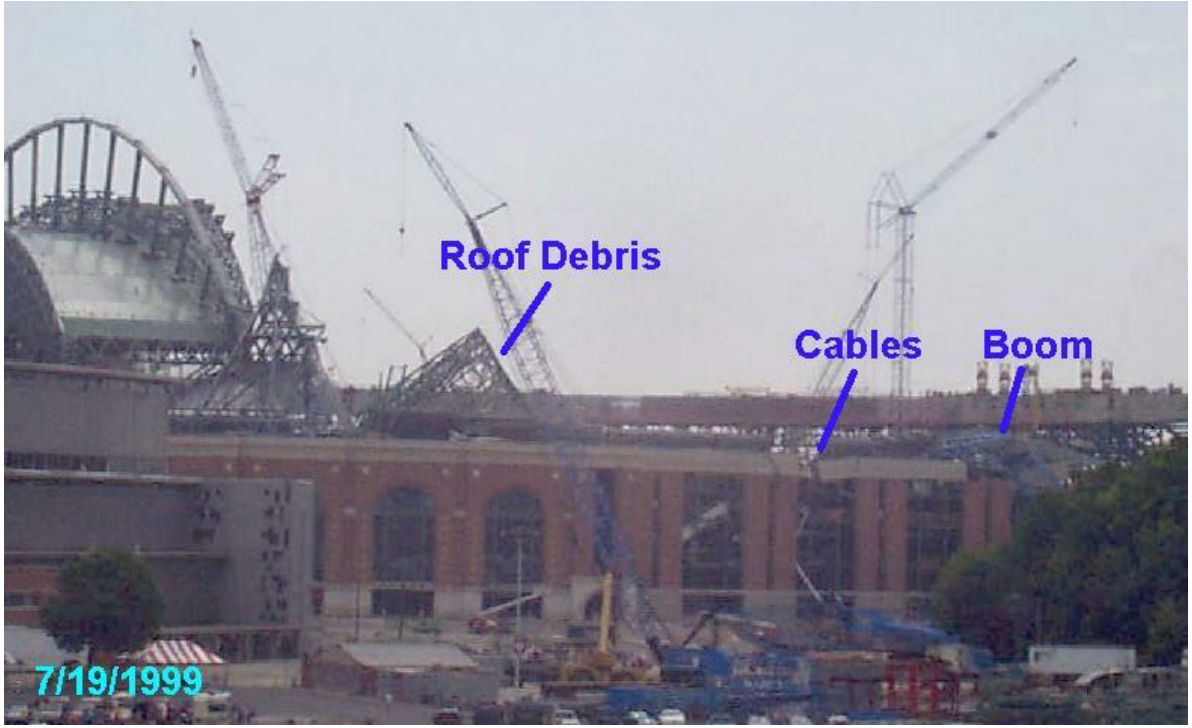
Force Majeure Situation

- New Orleans Saints and the Superdome
  - Article 15 – Force Majeure
    - "In the event that the Superdome or any portion thereof to be used by Club. . .is damaged or destroyed in whole or in part, Manager (Facility Management of Louisiana) agrees to commence the repair or reconstruction of the Superdome. . .promptly after such damage or destruction occurs"
    - Hurricane Katrina
      - $134.6 M in repairs needed
        - FEMA paid 90%
      - $51 M in improvements
        - NFL and Louisiana Stadium & Exposition District paying



Damage or Destruction

- Damage or Destruction Clauses (more common)
  - Examples
    - Brewers, Article 17, pgs. 37-38
      - $100 M in damages with 1999 accident



Team Movement

- MLB
  - 2005: Montreal Expos moved to Washington, D.C. and became the Washington Nationals.
- NBA
  - 2001: Vancouver Grizzlies moved to Memphis,
  - 2002: Charlotte Hornets moved to New Orleans.
  - 2008: The Seattle SuperSonics moved to Oklahoma City.

- NFL
  - 1997: Houston Oilers moved to Memphis and became the Tennessee Titans.

Experience of areas that lost teams

- St. Louis:
  - Cardinals left in 1987 after city refused $120 ($138 M in 1990) toward new facility
    - → 1990 -- 3 years later voters approved $280 M for new stadium for Rams (double what had refused for Cardinals)

- Cleveland:
  - Cleveland refused to provide sufficient public funding to keep Browns (would renovate but not assist with new stadium – capped at $125 M ($129 M in 1999))
    - → they moved to Baltimore in 1997 where city paid $220 M for their new stadium and became Ravens
    - → in 1999 Cleveland paid $285 M for stadium for expansion franchise (more than double what it would have cost to keep old Browns)

Communities desire for teams

- Nashville Example
  - Built $145 M arena (approved 1994) for NHL before even awarded a team (became Predators in 1998)

  - Built $292 M stadium (approved 1996) to lure Houston Oilers to Nashville (1999)

  - $437 M committed before even had commitment from teams

Retention Methods

- Methods to avoid team movement
  - Non-Relocation Agreements
    - Brewers Non-Relocation Agreement

1912 - 1952

1953 - 1965

1966 - present

Retention Methods

- Bexar County Community Arena Non-Relocation Agreement by and between Bexar County, Texas and San Antonio Spurs, L.L.C., d.b.a. San Antonio Spurs Basketball Team, August 22, 2000
  - "Covenant to Play,"
  - "Non-Relocation" provision,
  - "Liquidated Damages" clause that starts at $250,000,000.00 and declines to $106,000,000.00 over the term of the lease.
  - agreement allows for either party to seek specific performance to enforce any of the promises made by the other party

- ISSUE: Enforceability?

Condemnation

- Process by which governmental unit takes private property for public use – refers to taking of the facility in lease agreement
  - Focus on what happens after the taking
    - Termination
    - Restoration
    - Use of Alternate Facility
  - Dictated by local laws
- Examples
  - Packers, Art. XVII, pgs. 56-57

The Next Issue for Milwaukee: Team Side

- "team argued that - - - - had not been an economically viable arena for professional basketball for a number of years because it 'lacks the necessary physical infrastructure and amenities and is an economically obsolete venue for men's professional basketball.' . . .the arena was one of the smallest in the NBA. . .it did not have enough premium seating opportunities, and it had limited points of sale opportunities and for a team store."

  - Anderson & Miller, *Sonic Bust: Trying to Retain Major League Franchises in Challenging Financial Times*, 21 J. Legal Aspects of Sport 117 (2011)

SEATTLE SONICS

The Next Issue for Milwaukee: City Side

- the city made clear that it sought to enforce the lease "to obtain the benefits, economic and intangible, that it bargained for when deciding to pledge taxpayer dollars in a completely renovated basketball arena. Those benefits are unique in nature and cannot be measured in monetary terms."
  - as to tangible benefits, the City alleged that the team spent $30 million annually in Seattle, that this spending created approximately 150 jobs, that the team brought in substantial game-related spending from outside the city, and that it made substantial contributions to charitable organizations.
  - As to intangible benefits, the city argued that the team "create[d] civic pride, a sense of community, greater visibility to the country and world, and attract[ed] new businesses and residents


FORD CENTER


SONICS
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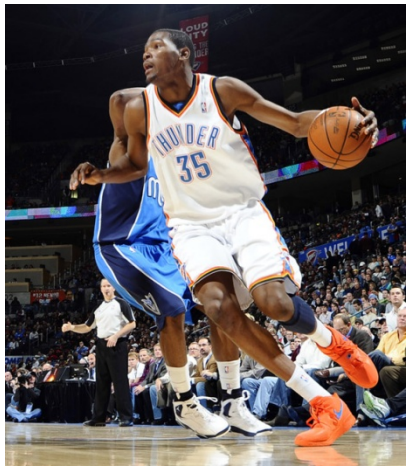
THUNDER
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_____ Bucks?

1951 - 1954

1955 - 1968

1968 - present

QUESTIONS ????

$662 M ($309 M public funding)