TOP 15 FREQUENTLY ASKED QUESTIONS ABOUT STADIUMS

#1 HOW BIG ARE TYPICAL STADIUMS AND WHAT DO THEY COST TO BUILD?

Just like any other construction project, the size and cost of stadiums can vary widely depending on the design and materials. Fifteen Major League Baseball parks have been constructed since 1991 with average seating of 44,700 and an average cost of $286.1 million. Nineteen National Football League stadiums have been constructed or renovated since 1995 with average seating of 69,200 and an average cost of $323.4 million. The amount of land required to accommodate these facilities is highly variable depending on design and infrastructure needs (ramp/surface parking, roads, etc.). Each potential site must be evaluated on a case-by-case basis.

#2 WHAT IS PUBLIC SHARE AND PRIVATE SHARE?

Almost all professional sports facilities are constructed or renovated using a combination of public and private financing sources. The percentage of funds invested by each represents their share of the financing package. Since 1991, the 15 Major League Baseball parks that have been constructed had an average public financing share of 74% (Range = 5% to 100%). Since 1995, the 19 National Football League stadiums that have been constructed or renovated had an average public financing share of 64.5% (Range = 19.7% to 100%). Public sources of financing include sales taxes, proximity and beneficiary taxes, general obligation and revenue bonds, tax increment financing (TIF), etc. Private sources of financing include owner contributions, league contributions, bank loans, loans from local business community, personal seat licenses, etc.

#3 HOW DO TEAM OWNERS MAKE MONEY AND HOW ARE TEAMS VALUED?

Owners of professional sports teams make money in a variety of ways. Primary revenue sources include ticket receipts (suites, club seats and general admission), league revenue sharing, broadcasting fees, concessions, advertising, and parking. Primary expenses include player compensation, league revenue sharing, advertising, administration, and debt service. Generally, teams that are more profitable are worth more. However, valuation of professional sports teams is as much an art as a science. Forbes magazine publishes an annual list estimating the value of professional sports franchises based on revenues, operating income, debt, etc. The 2003 list places the value of the Minnesota Vikings at $542 million, which is 30th out of the 32 NFL teams (Owner: Red McCombs, purchased team in 1998 for $246 million). The Minnesota Twins are valued at $148 million, which is 27th out of 30 MLB teams (Owner: Carl Pohlad, purchased team in 1984 for $44 million). Generally, the construction of a new stadium significantly increases the value of a franchise.

#4 WHAT ARE NAMING RIGHTS?

This is when private corporations pay for the right to have their name displayed on professional sports facilities. Examples include:

- Minute Maid Park (Houston Astros) - $6 million/yr through 2030
- Miller Park (Milwaukee Brewers) - $2.1 million/yr through 2020
- PNC Park (Pittsburg Pirates) - $2 million/yr through 2020
- Ford Field (Detroit Lions) - $1 million/yr through 2042
- Lincoln Financial Field (Philadelphia Eagles) - $6.7 million/yr through 2022

- Reliant Stadium (Houston Texans) - $10 million/yr through 2032
- Target Center (Minnesota Timberwolves) - $1.3 million/yr through 2005
- Xcel Energy Center (Minnesota Wild) - $3 million/yr through 2024

#5 WHAT ARE PSLS?

Personal seat licenses (PSLs) are an investment by fans giving them the right to purchase specific seats in a stadium. If the PSL owner opts not to purchase the seats for a particular game, the seats may be offered to the public. Examples where PSL revenue has been used to for stadium construction include:

- Pacific Bell Park (San Francisco Giants) - $55 million
- Safeco Field (Seattle Mariners) - $20 million
- Lincoln Financial Field (Philadelphia Eagles) - $60 million
- Soldier Field (Chicago Bears) - $70 million (estimate)
- Lambeau Field (Green Bay Packers) - $92.5 million
- Ericsson Stadium (Carolina Panthers) - $122 million

A variation on this concept was used to help finance The Ballpark in Arlington where the Texas Rangers play. $16.7 million was raised through the sale of 15-year seat option bonds. Although these proceeds have to be repaid at the end of 15 years, this concept has two primary advantages. 1) The team receives an interest free loan that does not have to be reported as revenue for tax purposes. 2) The team can re-sell the bonds in 15 years at a potentially higher price.

#6 WHAT IS TAX INCREMENT FINANCING?

Tax increment financing (TIF) is a mechanism allowing local government entities to capture the incremental tax revenues generated by real estate development. The key test for its use is that 'but for' the TIF assistance, development would not occur. The steps involved in TIF are as follows. First, a district is defined and a base tax value is established. Second, development occurs and a new tax value is realized. Third, the taxes collected on the incremental increase in tax value are captured to pay for public costs (e.g. infrastructure). If a stadium were privately owned, it would contribute to the incremental increase in tax value. If not, only ancillary development near the stadium would contribute to the increased tax value.

#7 WHAT ARE PROXIMITY AND BENEFICIARY TAXES?

Proximity and beneficiary taxes refer to a broad set of potential revenue streams that are paid by those who use or benefit from the facility. These include:

- Ticket Tax
- Food and Beverage Tax
- Lodging Tax
- Parking Tax
- Game day revenue from public parking ramps
- Car Rental Tax
- Media Access Charge
- Naming Rights

- Personal Seat Licenses (PSLs)
- Player Income Tax
- Special Lottery Games
- Sports Memorabilia *(violates Streamlined Sales Tax agreement)*

#8 WHAT ARE DEVELOPMENT RIGHTS?

Development rights give an entity the exclusive right to build on a particular piece of property. If the land acquired for a stadium is large enough to accommodate ancillary uses (restaurants, hotels, retail, housing, etc.) the owner may be able to charge a premium for the right to develop that land. A community may also have the ability to use a planned unit development (PUD) or preferred zoning designation to encourage development around a stadium.

#9 WHAT IS G-3 FUNDING?

G-3 is a loan program established by the National Football League to assist its franchises in constructing new stadiums. Large market teams are eligible for more funding than mid and small market teams. The loans have generous repayment terms. Teams that have recently received G-3 loans include:

- Philadelphia Eagles - $150 million
- Chicago Bears - $100 million
- Green Bay Packers - $13 million
- New England Patriots - $141 million

#10 HOW HAVE OTHER STADIUMS BEEN FINANCED?

Every stadium project is financed differently. In addition to owner contributions and the financing mechanisms outlined above, the most common financing sources are:

- Sales taxes in the host city/county or metro area
- Revenue bonds backed by specific taxes or stadium revenues
- General obligation (G.O.) bonds issued by local/county/state government
- Deferred loans/grants from government and/or local business community
- Investment income generated on bond proceeds or other pools of money

#11 WHAT ARE CLUB SEATS, SUITES, ETC?

Tickets to professional sporting events are broken into three major amenity levels. General admission tickets are the most economical and simply provide the fan with a seat to view the game. Club seats are a relatively new concept. Fans that purchase club seats sit in designated sections, have access to a club or reception area within the stadium, and often receive other amenities such as free or discounted food/beverages, parking, promotional offers, etc. The most expensive option for viewing a professional game is to rent or purchase a suite. Suites are enclosed spaces that are furnished and equipped to make the game day experience as enjoyable as possible for fans. Features may include plush chairs and couches, televisions, balconies overlooking the field, refrigerators, sinks, restrooms, etc.

#12 WHAT ISSUES NEED TO BE ADDRESSED WHEN BUILDING A STADIUM?

In addition to developing a financing plan, there are several other issues that must be considered when constructing a stadium.

- Is the site large enough for the stadium?
- Does it have environmental or geotechnical issues?
- Is the land available for acquisition?
- Are there existing residents/businesses that must be relocated?
- Do parking and related infrastructure already exist or does it need to be built?
- What opportunities exist for ancillary development?
- Is the location acceptable to the team?

#13 WHO TYPICALLY OWNS PROFESSIONAL STADIUMS?

Local governments or special stadium authorities own most professional sports facilities. These public entities oversee the operation of the facilities and negotiate leases with professional sports teams and other users. For example, the Metrodome is owned by the Metropolitan Sports Facilities Commission, Target Center by the City of Minneapolis, and Xcel Energy Center by the City of St. Paul.

#14 WHAT BENEFITS WOULD THERE BE TO PRIVATE STADIUM OWNERSHIP?

Unless abated or frozen through the use of tax increment financing, the primary benefit to the public is the payment of property taxes. The primary benefit to the private owner is the ability to claim depreciation on the asset. Given the significant value of a stadium, it has the potential to substantially reduce tax liability over many years. Private ownership has been an increasing trend in recent years. Portions of Ford Field (Detroit) and Lambeau Field (Green Bay) are privately owned. Ericsson Stadium and Gillette Stadium are owned entirely by private owners.

#15 WHY DO PEOPLE SAY THAT THE ECONOMICS OF BASEBALL ARE SKEWED?

This is said because there is a significant imbalance in the revenues and payrolls of large market teams vs. mid and small market teams. Although progress was made under the 2002 Major League Baseball collective bargaining agreement, further payroll restrictions and/or revenue sharing is needed to correct the problem. By comparison, the National Football League has negotiated payroll caps and generous revenue sharing agreements in order to keep all teams competitive.