HOCKEY ISSUE

QUESTIONS & ANSWERS

MINNESOTA STATE SENATE
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This discussion of questions central to the question of legislative funding of the new RiverCentre hockey arena was compiled from sources that are public. No confidential records were seen or used.

Opening

The RiverCentre development in Saint Paul is designed to be anchored with a multipurpose arena, the future home of the Minnesota Wild hockey team. The state has been requested to provide $65 million in bonding for the project, which has a total projected cost of $130 million. If the state provides that funding, the city of Saint Paul (the "city") will bond $30 million for the arena, and the Minnesota Wild (the "team") will provide $35 million.

The RiverCentre development in Saint Paul includes a new convention center, a connection to a new science museum, and a hockey arena, coordinated with riverfront development.

This document asks and answers a series of factual questions about the arena project, in order to provide a baseline of knowledge for decisions.

1. How much will the arena cost, and who pays for it?

The arena is projected to cost $130 million. The state has been asked to provide $65 million, the city will bond for $30 million, and the team will provide $35 million. The following table lists amounts and payment sources:

State of Minnesota	$65 million in general obligation bonds
City of Saint Paul	$30 million in revenue bonds, paid for with $1.4 million in annual revenues raised by a $1 per ticket surcharge, and revenues from an outdoor marquee ($385,000 per year). Also, site development and infrastructure costs.
Minnesota Wild	$35 million (letter of credit has been provided)

The city and team portions are set. Should the state decide not to bond or to provide $65 million in any format, the city is required to provide this amount. If more than $130 million is needed to complete the arena, the team must bear the cost of any overruns.

2. **Will the arena attendance be sufficient to provide the $1.4 million and give the team profits in order to pay their share?** The answer has two parts -- projected team attendance and non-team attendance.

<u>Team Attendance:</u> The team projects a paid attendance rate of 83 percent. The exact arena seating is not set, but if a 19,000-seat arena is constructed, the average attendance should be 15,770. There are four main grounds cited for supporting this as a valid projected attendance:

- The east metro region has seen a population growth rate of 16 percent from 1990 to 2000 and is projected to see a growth rate of 29 percent from 1990 to 2020. These figures are in accord with Metropolitan Council estimates, but population growth does not necessarily translate directly into hockey fan growth. However, surging popularity of women's hockey at all age levels might bode well for future ticket sales;

- Attendance rates for National Hockey League games in the current season vary from a low of 54 percent to a high of 99 percent. The median percent of attendance capacity is 87 percent in the Eastern Conference and 94 percent in the Western Conference, using league figures;

- Minnesota North Stars attendance records show a median attendance rate of 90 percent for the years between 1980 and 1993; and

- Over 10,000 seat reservations at $100 per seat have been received by the Minnesota Wild. Historically, the NHL has seen a 90 percent conversion rate for reservations of this type, but this figure will be tested if ticket prices rise high enough to dissuade some with current reservations.

There are two concerns about projected attendance:

- The Minnesota Wild are assuming an average ticket price of roughly $40 per person (an average over many seat types); this is in a market with four major league teams and one major college team; and

- The city is using a figure of 16,279 paid attendees over 43 games; the team is using a figure of 15,770 for those games. If the lower team number prevails, this places more pressure on non-hockey events to raise the necessary ticket surcharge.

<u>Non-Team Attendance:</u> Given a projected attendance of 15,770 per game, for 43 professional hockey events the total Minnesota Wild attendance would come in at just under 700,000. The city of Saint Paul will also need to see an attendance of 700,000 at non-game events in order to raise the total ticket surcharge of $1.4 million on its $1 per ticket tax. If the ticket tax falls short, the city may raise the surcharge by any amount it needs, in order to raise the necessary revenues. At some point, however, raising ticket surcharges places additional pressure on falling attendance rates.

Estimates on non-hockey attendance depend on a number of variable factors:

- The aggressiveness of competition for concerts and events by other venues, including the Target Center and, in some cases, Williams Arena;
- Use of the facility to support trade shows and conventions crossing over from the new RiverCentre convention center; and
- The general economy, event ticket prices, and the consequent number of large public concerts and trade shows seeking a hall.

3. What might Saint Paul do if the state does not provide funds for this project?

It is up to the city of Saint Paul to provide an answer to this question. City representatives have stated that the Minnesota Wild have no obligations other than those stated in the lease. There are no contingent payments by the Minnesota Wild to help the city pay any portion of the remaining $65 million in financing.

The city has outlined one possible way to pay off this $65 million. Additional bonds could be issued by the city (with a potential negative effect on the city bond rating). Payment of those bonds might come from the following sources:

- Unallocated revenues from the city one-half cent sales tax, extended until the year 2030, and only from the 40 percent of annual proceeds for RiverCentre purposes.
- Increasing the ticket tax surcharge by 50 cents.
- An existing hotel/motel tax.
- Revenues from an existing TIF district that includes the arena and the Lawson Office Building.

The actual city financing plan will be contingent upon the amount of state bonding, if any. One impact of having to adopt this plan would be higher capitalized interest costs -- because TIF revenues and the half-cent sales tax are currently obligated for other purposes and will be unavailable until later in the repayment term. In addition, funds for operation and maintenance of the arena would be displaced.

4. What happened to arena revenues, the type of revenues that were considered in the various Minnesota Twins proposals?

The current arena deal is a two-way agreement between the Minnesota Wild and the city of Saint Paul. Many of the revenue streams which were unallocated and open to consideration in a possible Minnesota Twins stadium package are already committed to the Minnesota Wild, to existing debt, or to other city purposes:

- Naming rights, concessions, parking revenues from game nights, club seat revenues, and other direct arena revenues are directed to the team;

- No rent is paid by the team. Instead, a $1 per ticket surcharge and marquee revenues are allocated to the city for repayment of city bonds. Escalator clauses allow these revenues to increase on a scheduled basis if needed;

- Revenue from non-hockey arena events are available to the team, with some limitations, and some protection provided for State High School League events; and

- A reserve and repair fund has been established, funded from both team and city sources.

5. Can the state recapture any of the team revenues for repayment of its share?

A contract between the city and state is not subject to legislative abrogation. This limits the ability of the state to capture revenues associated with the arena for repayment of state bonds. The state's general powers of taxation are available.

The idea of capturing revenues for payment of state bonds may mirror the Minnesota Twins debate, where player salary taxes, arena sales taxes, parking tax surcharges, and a variety of other revenue sources were considered. However, the lease between the Minnesota Wild and the city requires that the state may not finance any of the state's proposed $65 million by finding revenues with an impact on the team. If such revenues are produced, the city will have to make the team whole.

Revenues such as player income taxes or sales taxes could be allocated by law to bond repayment. These revenues are estimated to range from $2 million to $8 million per year. Revenues such as a parking surcharge or a player income tax surcharge could arguably have negative impacts on the city or team operations at the arena.

6. What if the team folds? What if the team tries to pull up stakes and leave? What if there is a players' strike?

The above are basic questions that are often asked in assessing the risk associated with bonding for a project of this type. Some answers:

- A 25-year lease has been signed with the team. After ten years, the team may leave if the team repays the outstanding principal and interest on state and city bonds.
- If the team declares bankruptcy, existing lease and financial contracts would come under the jurisdiction of bankruptcy courts. The point has been made that the National Hockey League itself has an interest in preventing a team bankruptcy.
- A players' strike will reduce ticket surcharge income. A reserve account will exist, but may not be adequate to cover a strike scenario. However, the NHL's collective bargaining agreement is in place through the year 2004, protecting the first four years of arena operations.

Before bonds can be sold, bond counsel typically assesses the risk of such events and the adequacy of reserve arrangements.

7. Have other jurisdictions paid as much as the city and state are expected to pay here?

Arguably, yes. Locally, the city of Minneapolis agreed to donate infrastructure to the new Minnesota Twins stadium, an estimated $35 million worth of land and assets. The state was considering a contribution of at least $238 million, but to date has chosen not to make that investment.

Enclosed with this document is a table which summarizes hockey arena financing in various states across the country.

8. Will the owners of the team make an exorbitant return on their investment in the Minnesota Wild?

The owners will pay an $80 million franchise fee, and have estimated that startup costs of $10 million will accrue before operations begin. The team will also pay $35 million for the new arena. The team assumes control over the arena, including potential operating profits or losses. Other costs may crop up. This initial investment of at least $125 million could possibly be partially shifted from equity to debt in the future through stock offerings or other financial strategies, although the NHL does require a 25 to 50 percent equity holding.

In return for this up-front investment, the team gets a franchise, which may appreciate in value, and use and revenues from a state-of-the-art arena. Thus, the team pays around $125 million in return for $210 million in total value for a franchise and arena. This creates at least the possibility of a good return; how good the return will prove to be depends on the general success of professional hockey, the amount of corporate involvement, whether the team can recover initial investments through some sort of public offering, and whether arena revenues prove lucrative through high attendance. The team does accept the possibility of losses, although this is arguably a lesser risk than if the team had paid the entire arena costs.

9. What are the potential benefits to the people of Minnesota and Saint Paul? Is this a convention center deal?

The city of Saint Paul argues that this is a convention center plan, tied to the development of RiverCentre, a large river renewal project creating a space for both convention and community events. The city would prefer that legislators see the convention growth and economic development of the entire RiverCentre project as a whole, including the arena.

The benefits are then calculated in terms of construction jobs -- immediate cash benefits -- and in terms of long-term usage of the entire convention facility. Initial bookings at the convention facilities have been good. The city is projecting heavy use of the combined convention arena facility beginning with the arena opening.

The economic projections put together by KPMG Peat Marwick for the city and team suggest as many as 934 full-time equivalent jobs will be created by team operations, with 557 of these coming to Saint Paul. In addition to these and a variety of other statistics about jobs and economic benefits, the city makes the point that this arena is an anchor of one corner of a major river revitalization project, which will benefit the entire state.

10. Are there questions that remain unanswered?

Yes. The team has chosen to keep projections, financing, investor names, and other details confidential. Legislators and staff who sign an agreement may receive a confidential briefing of records selected by the Minnesota Wild for their examination. It is not clear whether a full examination of all Minnesota Wild records is available even upon signing the agreement, or if the team is only offering a selected portion of their records.

A deal of this complexity can admit to any number of questions. Some questions are judgment calls, of the type that are not answerable by pure analysis. The following are some of those not answered by this document:

- Are there any verbal or written agreements between the city, the team, the contractors, or other players in the arena, which the state should know about before committing state funds?
- What is the financial strength of the investors backing the team? Would they be able to pay if significant construction overruns threaten the arena construction?
- Is this a lucrative arrangement for the team, which would militate against further public subsidies, or is this a modest deal which benefits the public as well as the team?
- Will the entire complex -- the RiverCentre convention center and arena -- work well over time? Or will the competition from the Target Center and Minneapolis Convention Center result in empty halls?
- Is this a major opportunity for Saint Paul and the state to create a vibrant capital city, the sort of deal that acts as a cornerstone to future business and community development?

PJM/RSH:vs
Enclosure

NEW HOCKEY ARENA FINANCING IN OTHER STATES

Team	Total Cost	Percent Public Financing	Team Contribution	Other Private Funding	Revenue from Facility
Buffalo Sabres	$123M	45%	$0	$33M	$35M
St. Louis Blues	$135M	0%	$0	$105M	$30M
San Jose Sharks	$163M	82%	$30M	$0	$0
Anaheim Mighty Ducks	$127M	0%	$0	$127M	$0
Montreal Canadiens	$230M	0%	$230M		
Tampa Bay Lightning	$160M	?			
Carolina Hurricanes	$120M	90%	$12M	$0	$0
Phoenix Coyotes	$100M	55%	$45M		
Colorado Avalanche	$160M	?			
Minnesota Wild	$130M	73%	$35M	$0	$0
Columbus Bluejackets	$125M	0%	$81M		$44M
Washington Wizards/Capitals*	$104M	48%	$0	$0	$104M
Boston Celtics/Bruins*	$160M	0%	$32M	$0	$128M
Chicago Bulls/Blackhawks*	$188M	7%	$26M	$149M	
Miami Heat/Panthers*	$53M	87%	$0	$7M	$0
Dallas Stars/Mavericks*	$125M	16%	$105M	?	?
Atlanta Thrashers/Hawks*	$141M	0%	$141M	$0	$0
Toronto Raptors/Maple Leafs*	$227M	?			
L.A. Lakers/Kings*	$240M	?			
Philadelphia Flyers/76ers*	$210M	?			
Phoenix Coyotes/Suns*		?			
Vancouver Grizzlies/Canucks*	$125M	?			

* Financing package is part of a basketball/hockey sports complex.

Source: NCSL and others.