The cheap seats

01/05/2002

As any coach worth his salt will tell you, the intangibles in a player matter. Likewise, the players who finance sports stadiums find that the intangible of risk mixed with the emotional reality of sports can cloud even the best strategy. Whether in Europe or the United States, the question of how much the consumer should pay for intangibles like risk, urban image and the emotional safety valve provided by sports is a moot issue.

Still, the stadiums go up. With many of them already built or under construction and others on the drawing boards, the record suggests that US fans are addicted to these secular temples. And it's clear that these edifices get paid for by variations on a financing theme that have led to public-private partnerships able to manage the risk ? and maybe even placate those who criticize public funding of them.

?This isn't rocket science,? says Salvatore Galatioto of Lehman Brothers, who runs off a laundry list of a basic sports stadium deal's key revenue sources: price of the building and whether it's open air or got a roof or retractable dome, number of luxury suites, and how many leases on them, naming rights, club seats, as well as the number and type of teams that will use the facility. You also have to look at its use by annual or occasional outsiders like the circus and rock bands, he adds.

Indeed, most non-public stadium financing deals use similar revenue streams, says Sumitomo-Mitsui's Jim Weinstein, whose bailiwick is actually global IPP projects. Weinstein cites Miami Florida's Joe Robbie Stadium in the 1980s, United Center in Chicago and Fleet Center in Boston, together with ?15 other stadiums in the 1990s? as projects that procured long-haul and stable revenue streams from luxury suite leases, seat rental, naming rights and similar sources.

While bankers in the thick of sports stadium financing may play down the need for structural sophistication in the deals they do, they readily acknowledge the extent to which a small, vocal school of economists have roiled sports stadium financing since the mid 1990s. The basic party line of those academics on the projects: public funding of projects fleeces taxpayers at the expense of education, local infrastructure needs and other social programs, providing negligible economic benefits for the locales where they are built.

?I completely disagree...it's baloney that a sports arena has no positive effect? on the surrounding community, says Galatioto, who maintains that gaining a professional sports team and stadium have helped to ?put on the map? smaller cities like Charlotte, North Carolina, with its National Basketball Association Hornets and Portland, Oregon, home to the Trailblazers.

?It's an easy argument [for them] to make,? says Weinstein on the pundits' assault. Like Galatioto, he criticizes the shrill approach taken by economists that attack sports stadiums based on the lavish public funding of a handful of facilities. As examples of the latter, Weinstein points to what he terms public ?rip-offs? like the Baltimore Orioles' Camden Yards baseball stadium.

In contrast, Galatioto considers the Baltimore stadiums a boon to downtown despite their dependence on the public till and even cites Cleveland's publicly financed Jacobs Field stadium for professional baseball's Indians as another example. ?You can argue it's not a 30-40% effect on the economy, but don't tell me it's no effect at all? when you attract crowds and restaurants back downtown.

Societe Generale's Randy Campbell concedes that although unrestrained access to public funds ?probably? wasn't a wise approach for some municipalities, there are ?just as many success as problem stories? on stadium financings. Campbell also tends to see the glass as half-full in regard to the stadium projects in Baltimore and Clevelend.

Nonetheless, banking players agree that unrestrained public funding of stadiums is no longer a real option. The dominant paradigm going forward: public/private partnerships in which team/sponsor equity along with a politically honed municipal bond issue is solidly backed by stadium revenue streams. Key to this approach is getting a revenue bond investment grade rating for a stadium or arena, says Galatioto, a move that may require getting a wrap from an insurance company to boost ?triple-B-ish? paper to ?A? status.

Several stadium deals have relied heavily on the surety approach. Debt wraps actually enabled stadium financings for NFL teams in New England, Denver, and Philadelphia, says Bank of America's Eliott McCabe. True, monoline insurers like AMBAC, MBIA and FSA are selective; but they offer strong support of projects that pass muster, says McCabe. In the past, insurers had done wraps for public municipal offerings, but steered clear of private sector placements. As sureties become more comfortable with analysing new markets, they make the same underwriting analysis as any investor, enhancing the comfort level for other investors, McCabe says.

?You can't make money out of thin air,? Sumitomo's Weinstein concedes as regards public benefit and the transfer of jobs from one part of the economy to another place in relation to stadium activity. Still, he sees stadium project investments as being closely tied to equity investment in business. According to Weinstein, a ?chicken or the egg? phenomenon pops up in the debate over public-private financing of stadiums. ?When we size the amount of private investment equity needed to get the debt repaid, the return is no more than what can service the debt,? he says.

Even Washington D.C.'s Jack Kent Cooke stadium couldn't support more than $155 million of debt, according to Weinstein. ?You can't put in more private equity than what you can get a return on, so at that point the politicians have to decide if they want to put in for it,? he adds.

If the chicken-egg dynamic fails to blunt anti-stadium economists' assault on sports stadiums, they may find solace in the proposal announced in March for a Minnesota Twins baseball stadium. Under the plan authored by Assistant Finance Commissioner Peter Sausen and backed by current Governor Jesse Ventura the state would ?finance, not fund,? the project through an issue of $330 million of taxable revenue bonds to pay for designing and building the stadium. The Twins team would contribute $165 million to a gift fund with a 30-year investment horizon and an assumed 8.5% average return on investment compared to the bonds' estimated 6.5% rate.

Further, the team assumes the risk of covering annual interest payments and payment of principal at the end of 30 years. Also under the plan, the Twins take a 30-year lease on the ?publicly-owned? stadium and select all investment advisors. Further, in a move that looks like a virtual opiate for the anti-public-funding-of-stadium school, the Minnesota team is required to provide ?sufficient security or guarantees to ensure that state taxpayers hold no risk for future interest or principle payments.?

Another technique that appears to go some way towards addressing the issue of taxpayers' burden in a building a sports stadium is tax increment financing. In the ?TIF? approach, a portion of the increased tax revenues arising from the stadium are used to finance it, says Bill Hall, an attorney at Winston & Strawn and Washington D.C. Sports Commission member. The technique allows tax zones to be created in order to ?establish a baseline as to what the tax revenues in that zone are? without a stadium, and then using the increased tax revenues arising from the stadium as a way to pay for it ?with the objective of not using existing public revenues for a stadium,? Hall says.

While Hall says that the TIF approach still hasn't been used in D.C., it may be utilized in the process of trying to land a Major League baseball team in D.C. Preliminary numbers indicate that a TIF structure could generate 20-25% of cost of a $350 million stadium, including land acquisition, in D.C., says Hall.

While taxable revenue bonds or TIF look to be in line with public-private partnerships that minimize public funds seem relatively straightforward, securitization structures in the context of a sports stadium have a more exotic aura.

Bankers point to Staples Arena in Los Angeles and Pepsi Arena in Denver as examples of successful securitization structures used on stadiums, and some see it as a potential option in their own deals. Still, the structure shows scant signs of becoming part of the arena-finance canon anytime soon.

?It's talk, not action,? says Weinstein, terming the only two securitized US sports stadium deals that he knows of, done in the late 1990s, ?anomalistic.? Pointing out the lack of any real track record for securitization among arena projects, Weinstein adds that ?if there's enhanced security based on contracts related to a [securitization] and SPV, it's never been proved in court.? Weinstein says that most stadium project financings, including several of his own deals, eventually get refinanced into public markets anyway.

Other bankers recognise securitization as an option in stadium financings, but harbour reservations as well. SG's Campbell sees ?occasional? application for securitization and sees it as a valid structure but notes drawbacks too, such as a load of up-front work that has to be done when a team ?may not have the time to work through the issues.?

?All you're doing is just backing a bond with revenue streams; you strip it away from the stadium so it has less debt service,? says Galatioto. ?It's just a different technique,? he adds.

So how many more stadiums are left to be financed? While some bankers assert that only a handful of big US stadium financings remain to be done, others say there's plenty left there and elsewhere. Moreover, a notable exception on the ?big? side is the City of New York, where ex-mayor and devout Yankee fan Rudy Guliani put in a forcible plug for two new stadiums for the Yankees and Mets baseball teams before he stepped aside for the new Bloomberg administration. There is also a lot of speculation about a new stadium for the Giants football team, which plays at the Meadowlands in New Jersey. The projected cost of two new stadiums in New York City is in the region of $1.6 billion dollars.

Moreover with many new plans for stadiums on the drawing board, the crop of big deals may be a lot less meagre than some in the industry assert. McCabe at BofA points to seven National Football League teams in the G-3 program ? New England, Green Bay, Chicago, Philadelphia, Denver, Detroit, and Seattle ? with plans. In addition, the Dallas Cowboys, San Francisco 49ers, and several other teams are reportedly mulling new stadiums, he says. Combined needs among professional franchises for sports facilities amount to around $6-8 billion over the next few years. And plenty of opportunities exist on the collegiate level and other sports such as the NASCAR racing circuit, McCabe believes.