

Extortion Triangle in the South Bay? San Francisco 49ers New Stadium in Santa Clara

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First, there is confusion of present value and future value throughout the proposal. For example, the present value of the 49ers \$5 million annual rent over 30 years at 6 percent is about \$68.8 million, not \$150 million. Similarly, the annual \$3.3 million expense reimbursement has a present value of \$45.4 million rather than \$100 million. So these team contributions have a present value of less than one-half the amount discussed. The discussion should be in terms of either present value or the annual debt service for the 49ers and NFL, the quasi-public sports authority SCSA and the city of Santa Clara.

Santa Clara 49ers Stadium Proposed Funding	Initial Outlay	Percent of Total	Debt Service*
Private: 49ers and NFL Loan	\$363.3	42.55%	\$26.4
Quasi-public: Santa Clara Stadium Authority SCSA	\$330.5	38.71%	\$24.0
Public: City of Santa Clara New Debt	\$160.0	18.74%	\$11.6
Total Stadium Cost	\$853.8	100.00%	\$62.0

Debt payments at 6% over 30 years.

Source: Santa Clara Stadium Financing Proposal April 2007 and John Vrooman

Second, these payments along with parking and concessions and other revenue sources in excess of debt service are all washed away in the operating budget of the sports authority. There are two funding issues here: the cost of stadium construction which is split three ways among the 49ers, SCSA and Santa Clara and the cost of stadium operations which is ostensibly born by the SCSA. The proposal presents an elaborate scheme of sharing any operating surplus with the City but we are not told of the burden of operating deficits for the taxpayer of SC. The operating budget seems reasonable on its face, but all projections except for the 49ers' \$5 million rent are highly uncertain and subject to considerable risk shifted to the City of SC. The 49ers are assuming construction/design cost over-runs, but their responsibility for excess operating costs or non-stadium infrastructure costs is unclear, mystery "expense reimbursement from the 49ers" notwithstanding. These variable operating cost risks, together with foregone property taxes are disadvantages to public ownership of the stadium.

The key to public finance of sports venues is simply to get the guys that benefit to be the same guys that pay, nothing more nothing less. So the over-riding question as to whether these funding shares of 40/40/20 are reasonable can be reduced to a series of short answer questions:

What are the gains for the 49ers?

Total current revenue of the 49ers is probably about \$190 million and *Forbes* values the franchise at about \$800 million (\$2007). National revenue from TV, NFL Properties, and visitor's gate share (34 percent) is probably \$120 million (this is the same for every club). Local revenue from home gate share (66 percent) and venue revenue (rights fees, advertising and concessions/parking) is probably \$70 million. In the new stadium 49ers venue revenue could increase by as much as \$30 million. This would put local revenue close to \$100 million and total revenue at \$220 million. My guess is that the 49ers in the new venue will increase in value to well over \$1 billion in \$2007 or \$1.2 billion in \$2012.

Can the 49ers cover their share?

The 49ers share can be covered easily by luxury seat revenue alone. Consider that 150 luxury suites at \$100K per year (low) and 7000 club seats at \$3K a pop would yield \$36 million in cash flow per year. This contractually obligated revenue covers the \$26.4 million debt payment 1.36 times. It is also important to see that the Niners' debt payments will not restrict the operation of the team in any way. The national revenues in the NFL are more than sufficient to finance the team itself. The 2007 payroll cap of \$107 million is projected largely from national TV revenues which average \$116.7 million per club over the current six-year contract 2006-11.

What is the potential funding role of the NFL?

As a result of the New England Patriots threat to move from Boston to Hartford in March 1999, the NFL formulated a revolutionary stadium loan fund. In the G-3 loan program the NFL would collateralize its national television contract to back League stadium loans, to be repaid from the 34 percent visitor share of the club seat premium, which teams already contributed to national revenue.

The G-3 program was designed to prevent teams from relocating from large television markets to aggressive mid-markets for more lucrative stadium deals. The League would loan teams up to 50 percent of private stadium costs (maximum of \$150 million) for teams in the six largest television markets, and loan up to 34 percent (maximum of \$100 million) of the private contributions of clubs playing in smaller media markets. In this plan the 49ers were originally approved for \$137 million before stadium plans stalled in San Francisco. (See the attached Tables)

According to the NFL G-3 fund was exhausted by the \$300 million loan for the New York Giants/Jets New Meadowlands Stadium that will open in 2010. It is likely however that the 49ers stadium in Santa Clara will be

grandfathered with a loan of at least the \$63 million received by the Seattle Seahawks. The exact split between the club and NFL doesn't really matter because the loan is repaid from the visitor's share of club seat money. One concern for the NFL may be the relocation of the 49ers out of the nation's 6th largest TV market.

Is it fair to consider the Santa Clara Sports Authority share as part of the Team share?

Yes, although funds from rights fees (Founder's, pouring, naming etc) are not directly paid from the 49ers, this is money that would have otherwise gone to the club if they were to build the stadium themselves. The same is true of Personal Seat License (PSL) money should the 49ers choose to use this funding option. It is probably okay to consider SCSA's share as the team share if it is funded with foregone 49er revenues with one important exception below.

What is a PSL and how do they work?

If marketed properly the PSL is the present value of a season ticket discount over the life of the season ticket option. For example, say that the true value of the season ticket was \$1000 per season (\$100 per game). A \$5000 PSL could be collected up front for the season ticket priced at \$500. My rule of thumb for the PSL is ten times the \$500 discount. PSLs usually work for a relocation or expansion team and first time sea-tix holders. PSLs do not work well for existing 49ers seat-tix holders who feel that they are paying twice for an option that they already own. PSLs do not work at all if there is no apparent discount on tix prices or there is a limit to the life of the PSL option. The Oakland Raiders bungled PSL offering violated both of these basic principles.

If SCSA' share is foregone 49er money, then why is the Sports Authority necessary?

The answer is simple. As a quasi-public government authority the SCSA can levy taxes, but it cannot be taxed. So it presents a gigantic income tax shelter for the 49ers and actually local taxpayers as about 35 percent of the funding is shifted to state and federal income taxpayers in income taxes avoided by the 49ers if they instead received the rights fees and PSLs. Consider the case of the first modern use of PSLs by the Carolina Panthers who raised \$187 million in PSL money by selling a seat license for every seat in their privately financed stadium that opened in 1996. After tax PSL funds were reduced to \$122 million. Soon thereafter the St. Louis Rams sold their \$78 million in PSLs tax-free through the St. Louis stadium authority. Obviously all PSL and rights fees thereafter were sold through quasi-public stadium authorities. The global problem of course is the shifting of venue costs to the general income taxpayers.

Is this proposed deal fair to the taxpayers of Santa Clara?

This is the most important question of all. While the \$160 million price tag seems fair relative to other recent stadium deals, the public share is probably still too high when compared to the social returns for the general SC taxpayers. First, the external spin-off effects have been exaggerated, this is particularly true for a monolithic special use NFL stadium. The multiplier effects of a NFL stadium are zero-sum at best. Shopping malls have a much greater impact than NFL venues and they rarely receive public funding above infrastructure.

Second, the proposed costs do not include infrastructure such as \$20-\$30 million relocation of the electric substation and build a \$45 million parking facility at the request of the team. With these and other hidden "non-stadium costs" the total stadium project could possibly approach \$1 billion by 2012.

Third, the operating costs in the proposal are very risky and it is not certain how operating deficits will be handled. In this regard the mystery 49ers expense reimbursement needs to be attached to possible over-runs.

Fourth the confidentiality and secrecy of the 49ers finances only makes sense if their competitive advantage is in some way harmed. This is a lame reason in this case because the 49ers have a territorial monopoly. Furthermore when a team takes public money, they have become a quasi-public entity subject to freedom of public information.

Fifth, we are not told of the funding instrument for the \$160 million and more in municipal bonds. This usually creates an equity problem because NFL attendance is progressive with respect to income and most tax instruments especially sales taxes and lotteries are very regressive. Even tourist taxes on rental cars and hotel/motel taxes are really born by local taxpayers. The only tax that may work would be property tax increment financing (TIF) on surrounding development, although football stadiums are very ineffective anchors for wider development projects.

Finally, there is a major asymmetry of cost and benefit between the taxpayers Santa Clara and the 49er fans throughout the Bay Area. The 49er fan-base by far exceeds the local tax base of the Santa Clara Stadium Authority. Recall that the key to public finance of sports venues is simply to get the guys that benefit to be the same guys that pay, nothing more nothing less. In this proposed deal the 49er nation is taking a free ride.

John Vrooman, Vanderbilt economics professor, is an expert on sports economics. Vrooman has published extensive research on the economics of professional sports, player labor markets and owner capital markets, sports venue finance, and franchise relocation. Vrooman is also a former college athlete.

National Football League Venue Revolution

NFL Franchise	NFL Stadium	Year	Cap Seats	Lux Suites	Club Seats	Total Cost	Team Cost	G-3 Loan	PSL	Team Share
Miami Dolphins	Dolphins Stadium	1987	75.4	216	10,209	115	102	30	0	.887
Atlanta Falcons	Georgia Dome	1992	71.2	203	4,688	214	0	20	0	.000
Jacksonville Jaguars	Altell Stadium	1995	73.0	85	11,200	141	20	0	0	.142
St. Louis Rams	Edward Jones Dome	1995	65.3	124	6,150	299	0	0	78	.000
Oakland Raiders	McAfee Coliseum	1995	63.1	143	6,300	128	0	0	68	.000
Carolina Panthers	Bank America Stadium	1996	73.4	158	11,358	248	187	34	122	.763
San Diego Chargers	Qualcomm Stadium	1997	71.5	113	7,800	78	18	0	0	.231
Washington Redskins	FedEx Stadium	1997	91.7	284	15,000	251	180	90	0	.720
Tampa Bay Bucs	Raymond James Stadium	1998	66.3	195	12,300	169	15	0	0	.089
Baltimore Ravens	M&T Bank Stadium	1998	69.3	108	7,900	229	29	0	65	.127
Tennessee Titans	LP Field	1999	67.7	143	9,600	292	71	0	71	.243
Cleveland Browns	Browns Stadium	1999	73.2	147	8,754	314	79	48	25	.252
Cincinnati Bengals	Paul Brown Stadium	2000	65.6	114	7,600	458	44	0	26	.096
Pittsburgh Steelers	Heinz Field	2001	64.5	129	6,600	284	113	0	37	.398
<i>G-3 Loan Program</i>										
Denver Broncos	Invesco at Mile High	2001	76.2	124	8,200	401	100	48	0	.250
Houston Texans	Reliant Stadium	2002	69.5	191	8,250	449	132	0	50	.331
New England Patriots	Gillette Stadium	2002	68.8	80	6,000	412	340	141	0	.825
Detroit Lions	Ford Field	2002	64.4	132	8,641	500	375	100	0	.750
Seattle Seahawks	Qwest Field	2002	67.0	82	7,700	430	130	63	17	.302
Philadelphia Eagles	Lincoln Financial Field	2003	67.6	172	10,828	518	330	125	70	.637
Chicago Bears	New Soldier Field	2003	61.5	133	8,600	632	200	100	70	.316
Green Bay Packers	Lambeau Field	2003	71.0	167	6,260	295	126	13	93	.427
Arizona Cardinals	University of Phoenix	2006	63.4	88	7,500	455	147	42	0	.323
Indianapolis Colts	Lucas Oil Stadium	2008	63.0	142	7,100	675	100	33	0	.148
Dallas Cowboys	New Cowboys Stadium	2009	80.0	200	15,000	1,000	675	77	0	.675
Kansas City Chiefs	Arrowhead Stadium	2010	77.1	133	10,000	375	125	43	0	.333
New York Giants/Jets	New Meadowlands	2010	82.5	217	10,000	1,700	1,300	300		1.000
San Francisco 49ers	Santa Clara Stadium	2012	68.0	150	7,000	854	694			.813

Source: John Vrooman

Top Ten TV Markets 2008

Rank	Designated Market Area (DMA)	TV HHLDS
1	New York	7.392
2	Los Angeles	5.647
3	Chicago	3.469
4	Philadelphia	2.940
5	Dallas-Ft. Worth	2.436
6	San Francisco-Oakland	2.419
7	Boston	2.394
9	Washington, DC	2.308
8	Atlanta	2.310
10	Houston	2.051

Source: Nielsen Media Research and John Vrooman



San Francisco 49ers Outline Financing Proposal for Santa Clara Stadium

More than 80 percent of costs to be financed by team and stadium revenues

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SANTA CLARA, Calif., April 24, 2007 — The San Francisco 49ers today delivered a preliminary financial proposal to the Santa Clara City Council for the construction of a new, state-of-the-art NFL stadium.

The financing framework calls for more than 80 percent of the cost of building the \$850 million stadium to be financed by investments from the team, the NFL and from revenues generated by the stadium itself, such as naming rights and stadium sponsorships.

The proposal calls for the city of Santa Clara to make an investment capped at \$160 million for stadium construction (18.7 percent). Ongoing operations and maintenance would be entirely paid by revenues generated by the stadium, including significant rental and maintenance payments by the team, and thus would require no additional investment by the city.

The proposal is one part of a feasibility study that began in February and is being conducted by the team and the city.

A separate public entity, the Santa Clara Stadium Authority, would be created to own and operate the stadium, protecting the city's general fund. The team would enter a long-term lease as the facility's anchor tenant, contributing \$5 million per-year in base rent along with millions more toward operating expenses.

Revenue from the stadium would pay for upkeep and ongoing updates to the facility every five to seven years, with a portion of the revenues going to the city's general fund. The stadium is projected to generate gross cash flow to the Stadium Authority of at least \$1 million per-year just from 49ers games. Hosting an additional 10 to 20 special events annually at the facility, as expected, would generate additional cash flow to the Stadium Authority and the city's general fund.

A recent economic impact report conducted by Conventions, Sports & Leisure, International shows the facility also would fuel the creation of 2,230 jobs and \$249 million in economic activity in the region, while generating a total of \$12.3 million in combined annual tax revenues for the city, county and state.

“Our proposal is completely consistent with the promises we made to Santa Clara from the beginning: no net negative impact to the city's general fund, and no new taxes for the citizens of Santa Clara,” said John York, 49ers owner. “We believe the team's significant investment in this new public facility will benefit Santa Clara's entertainment district and provide long-term economic impact for the region.”

Funding Sources

The largest funding source, more than \$360 million, would be upfront cash for construction from the team and the NFL. The team would also assume all potential cost overruns, including inflation, as long as the project remains on track to be completed in time for the 2012 football season.

The second major funding source for the stadium, more than \$330 million, would come from the Stadium Authority's sale of such assets as naming rights, founding corporate sponsorships and concession rights. Part of this funding would come from bonds issued by the Stadium Authority that would be repaid by a ticket tax included in the price of tickets to stadium events. Backed by stadium revenue and issued by the Stadium Authority, the bonds would have no impact on Santa Clara's general fund.

Another component of this funding source would be the sale of Stadium Builders Licenses by the Stadium Authority. These transferable licenses would give fans the right to buy 49ers season tickets every year over the entire life of the new stadium, along with rights to tickets for other stadium special events. Revenue from the licenses would be used exclusively to fund and maintain the stadium with no proceeds going to the 49ers.

The remaining \$160 million of the stadium's costs would come from an investment in the facility by the city of Santa Clara, and would be capped. This investment, totaling 18.7 percent, would be significantly lower than the average percentage of public investment in the NFL's 15 most recently built stadiums. Under the team's plan, the city would also relocate a power substation currently located at the proposed stadium site.

Stadium Access

The team developed a preliminary concept for game day transportation at the stadium working with transportation engineering firm DMJM Harris and the Santa Clara Police and Traffic Departments. Due to the area's multiple public transit options including VTA Light Rail, ACE Commuter Rail, bus service and Amtrak, roughly one-fourth of game day fans could arrive via public transportation, reducing traffic congestion and parking needs.

The access plan would protect local residents by enforcing resident-only access to neighborhood streets near the stadium on game days. Traffic would be directed along the city's main thoroughfares, designed to accommodate high volumes of week day traffic generated by businesses already located in the area. DMJM Harris estimates that fans would be able to exit the stadium area 36 percent faster than the team's current stadium in San Francisco.

Next Steps

Today's proposal joins the economic impact report released two weeks ago and earlier details of the stadium's design and site plan as major components of the feasibility study. The team will discuss its proposal in greater detail with the city in the coming months, while continuing to meet with area residents and local businesses to discuss the impact and benefits of the stadium. If the team and the city decide to move forward, the California mandated CEQA process would begin in the fall, resulting in the production of an environmental impact report that would be subject to a thorough review by the public.

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For the latest updates on the team's plans for a new stadium, visit www.SupportOurNiners.com.



STADIUM FINANCING FACT SHEET

COSTS

Description	Estimate
<p align="center"><u>Stadium Construction Costs</u></p> <p>Construction costs including labor and materials used to build the stadium, if construction began today.</p>	\$616,340,000
<p align="center"><u>Inflation</u></p> <p>Costs for labor and materials will continue to rise from 2007 until construction begins in 2010.</p>	\$111,000,000
<p align="center"><u>Offsites and Site Work</u></p> <p>Infrastructure improvements to the site. Streets in the area are already built to accommodate high traffic volumes to service the area's many office buildings, so little work is needed.</p>	\$3,000,000
<p align="center"><u>Design, Engineering, Insurance, Entitlement, Legal</u></p>	\$123,428,000
TOTAL COST	\$853,768,000

FUNDING SOURCES

Description	Amount	Percentage
<p align="center"><u>Private Investment</u></p> <p>The 49ers and the NFL would make a significant investment in the facility. The team would also assume all cost overruns for construction of the stadium.</p>	\$363,304,000	42.6%
<p align="center"><u>Stadium Authority Project Funding</u></p> <p>The plan calls for a municipal entity to own and operate the stadium. The stadium authority would sell such assets as naming rights, founding corporate sponsorships, Stadium Builders Licenses and concession rights.</p>	\$330,464,000	38.7%
<p align="center"><u>City Investment in Stadium</u></p> <p>Investment source would be determined by city of Santa Clara.</p>	\$160,000,000	18.7%
TOTAL FUNDING	\$853,768,000	100%

- This schedule excludes the cost of relocating or reconfiguring a substation located at the stadium site, which has not yet been quantified. Also excludes costs associated with reconfiguring parking for the theme park.
- Assumes construction of the parking garage planned for the Santa Clara Convention Center proceeds on the south side of Tasman.