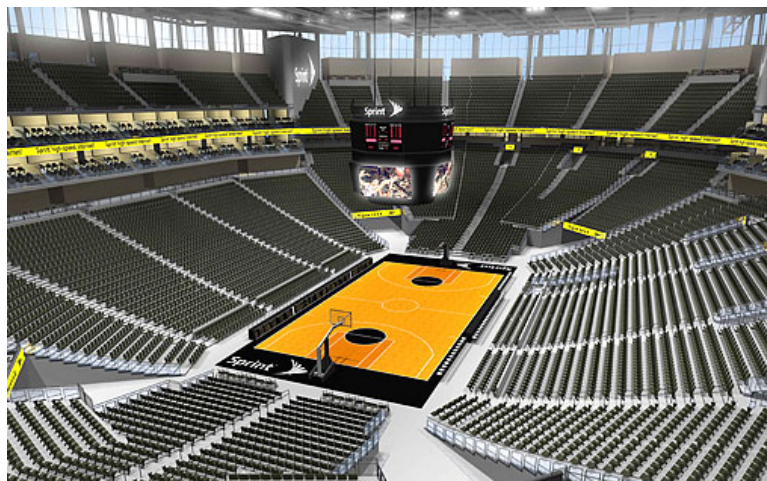


If You Build It, Will They Come? The Sprint Center Gamble in KC

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At this point, what do you think the city's chances are of getting an NHL or NBA team? (If the Penguins announce they're staying in Pittsburgh.)

If Pittsburgh and its proud Penguins cut an arena deal (which should happen very soon) then there are really not many NBA/NHL relocation threats left for KC to bank on. Even if there was an orphan team, KC is not the only empty seat in the arena extortion game of musical chairs. Don't forget Houston, Portland, Seattle, San Jose, and especially Oklahoma City, who completed another build-it-and-they-will-come arena in 2002 for \$89 million. So KC is not even the only empty arena. The odds are not good in KC landing a big-league franchise anytime soon.

There are currently four or five relocation candidates "on the market": NBA New Orleans/OKC Hornets and Seattle Sonics; and NHL Pittsburgh Penguins and Nashville Predators.

Even NBA Commissioner David Stern did not allow the Hornets to bolt New Orleans, and if they had gone they would probably end up in OKC's Ford Center, where they sold out 35 games last season.

The Sonics were recently extorting the City of Seattle for \$220 million in renovations at Key Arena, but they have since been bought by Clay Bennett, who hails from OKC. The Sonics are now extorting a \$530 million arena in suburban King County. Of course the Sprint Center/Ford Center cards are played again and again. So the odds are unfavorable for an NBA nomad landing in KC—Seattle will either give the Sonics a sweetheart deal, or they will head out for OKC and the Ford Center.

What about the NHL Penguins? Within the week the City of Pittsburgh will probably acquiesce to \$290 million arena demands with one of many casino-related public funding proposals. A complete deck of Sprint Cards have been put down in this one. In the end KC will have provided the credible relocation threat necessary for the Pittsburgh deal to go down.

Finally, be careful what you wish for KC. The Nashville Predators are trying to escape a \$156 million Gaylord Entertainment Center that was built in 1996 with 100 percent public money. The Preds have been in existence since 1998, and the GEC is now losing \$4 million a year. There is an out clause in the Preds lease. If paid attendance drops below an average of 14,000 for two seasons the team can bolt. But Nashville has made so many concessions to the Preds (Music City actually paid \$25 million of the \$80 million expansion fee) that it might be worth it to let them go, if demands get any higher.

There is one interesting NBA long shot—the déjà vu all over again return of the Sacramento Kings. The Maloof Brothers are extorting Sacramento for a new arena and the customary KC Sprint cards have been played. NBA Commissioner David Stern and hired guns are now glad handing around the Northern California political scene to schmooze the Governor into a "win-win" deal involving a regional sports authority. Although reuniting with the Kings would make for good theatre, the smart money has the Kings going to Las Vegas where the Maloof's run the tables fast and loose.

What are some other examples of city's taking the if-we-build-it-they-will-come approach to constructing an arena? Oklahoma City comes to mind. Any others?

Yep. New Orleans Arena and Tampa Sun Coast Dome (Thunder-Dome) were used and abused as third legs in extortion triangles for over ten extortion games, before they landed new franchises. In each case (Hornets, Lightning and Devil Rays) the franchises floundered from the outset.

Given the inside-out way the KC deal was done, this leaves KC with little hope of getting an owner who is locally involved in the KC community. The quality of the team will probably reflect the quality of an owner, who has just extorted and abandoned his previous home market by playing both ends against the middle. Even the Penguins with their exciting young trio of Sid the Kid Crosby, Evgeni Malkin and Marc-Andre Fleury will be broken up with the expiration of their rookie contracts in two or three years. Wherever they're playing, the Pens can't keep them together under the NHL salary cap.

Forget expansion, both leagues are bloated as it is. The NHL cannibalized itself by living off expansion fees in the 1990's during their ill-conceived Southern Strategy. Both of the arena leagues suffer from polarized competition, talent dilution and salary explosion—all are symptoms of overexpansion.

Why do you believe AEG "should have paid more or taken less"?

Most venue deals are between the City and the club. Recently, the NBA and NHL have become more involved in local arena/stadium politics, although they bear none of the arena costs. In KC's case AEG has wedged itself smack in the middle of a complex deal that is hard enough to complete with just two parties—let alone four. Frankly, there is not much left for the club in this deal. The Sprint Center setup is completely backwards—it is so inside out that there isn't even a team yet—the Sprint Center is all dressed up with no place to go. Now we have AEG offering the Pittsburgh Pens a 50/50 split of all venue revenues, before they have even decided to leave Pittsburgh. Hello—that's the point--these revenues are not AEG's to begin with. AEG is taking all of the shots, but they can't score. AEG may have contributed \$50 million to the deal, but this return on investment is way over the top. In venue finance, two is company and three is a crowd—and this deal is way too crowded.

Do the math. If 72 suites have already been leased at an average of \$100,000 a pop (they went for a lot more), then this yields an expected cash flow with a present value of \$110 million over the life of the arena. AEG has just doubled their money by luxury suite money alone. Frankly, this is money should have gone to reduce KC's public share of the arena. Now it should at least go to a prospective team if KC wants bribe its owner away from his current home. Nice of AEG to offer fifty percent of the revenues, when the money was not theirs to begin with. Based on their \$50 million contribution for a \$276 million arena, AEG should receive no more than 18 percent—tops.

The good news for AEG is bad news for the city and new club. The naming rights have already been sold, the luxury suites have already been sold, and those revenues usually go to the City or the club. Now you have AEG in the middle of the deal. This is like Clint Eastwood in the *Fistful of Dollars* (which I saw for the first time in the KC Plaza): "The Rojos on one side of town, the Baxters on the other, and me right in the middle."—then he squints, lights a cigarillo, and we hear the stupid flute.

What don't you like about the city's deal with AEG?

The back part of the arena deal (finance) is done, so it is too late to carp. But as the man in the middle, AEG should have paid more now or take less later. The front part of the deal (lease) remains to be done, so some of AEG's excess may be trimmed in the arena lease, but that doesn't help KC.

What is the risk to the city in this deal?

If a prospective NHL or NBA owner cannot get most of the premium seat money (if not all of venue revenue) from the Sprint Center, then Kansas City will have built a \$276 million arena for a minor league franchise. An NHL club would have no chance surviving on "half of the venue money."

This build-it-they-will-come crap-shoot was way too much public risk for KC to take. In the hardball politics of downtown KC v. Johnson County, the political risk for downtown KC MO is understandable, but the public economic risk is a long shot--way, way over the top.

If this is such a good deal for everybody, then where is the KC business community—where on earth are the big sticks from Johnson County? Forget the regional competition between the mythical KC Penguins and the lowly St. Louis Blues. Do you really think something like this deal could have gone down in St. Louis—without their corporate presence? No way. KC business should pony up their share

Why not move the LA Clippers from the Staples Center to KC. AEG controls the Staples Center as well. The difference is that they also own one of the primary tenants (NHL Kings) and have two NBA tenants (Lakers and Clippers) on top of that. As it stands now the Sprint Center has zero—LA 3, KC 0 and AEG wins either way.

There appears to be a clash of studies in an arena development. Local officials say arenas drive economic development. But you note studies that say there is no correlation. Why are the city's assumptions wrong?

First the external economic impact that everybody is trying to measure is impossible—it is like trying to catch lightning in a bottle. Second, there is a big difference between what is good for the team, the local economy (around the arena) and the bi-state/tri-county metro economy. There is way too much shifting of economic activity around metro KC to say that there are any positive sum gains from an arena project. There is just no proof on either side of the debate. This is what polarizes the argument.

In the final analysis, some guys benefit, and some guys lose from an arena, and losses usually exceed the gains. If they didn't, then private business would have already exploited the project. Even in the most optimistic estimates, the impact of an arena is not any more than a shopping mall. Cities don't build shopping malls for Dillard's, why should a sports club be any different? Although KC loves its teams, at its economic core, this arena deal is just a stand-alone, up-or-down private business matter.

There are two polarized sides to the economic debate surrounding public funding of venue deals. In the academic world, economists unanimously hold that public subsidy of sports venues is *never* justified by external multiplier effects, because spread effects are zero-sum at best.

Academics consistently argue that any positive growth is an illusion that comes at the expense of negative growth somewhere else. In a global sense, economic activity is just shifted around metropolitan KC and the total impact is zero. Use of taxes for arena funding precludes its use on more important local projects. The academic argument is that public funding of an arena falsely prioritizes tax dollars, since the funding is used for private gain.

In the business world, chamber of commerce economists, who directly benefit from local growth, *always* claim public subsidy will yield a big bang for the public buck and that short-run tax rebates will result in a larger tax base in the long run. In this win-win, positive-sum deal the public recovers its investment and everyone is magically better off.

In the real world, the ideal sports venue public subsidy probably lies somewhere in between never and always, depending on the project. Society's welfare maxes out when the guys that benefit are the same guys that pay—nothing more and nothing less.

The problem is getting everyone who is along for the ride to pony up their share. Unfortunately, the public/private split of 60/40 percent in the current \$276 million Sprint Center Deal is completely upside down.

There is evidence that local multipliers (positive gains near the project) do exist for sports arenas that anchor larger development projects in the abandoned core of mid-sized cities Kansas City. It is very important, however, that the arena be directly linked to a larger project.

There is also evidence metro-areas with many sub-centers, like KC, are at a political disadvantage because multi-county economic benefit extends well beyond the city's taxable political boundaries, such as into Johnson County. But, in the hardball politics of downtown metro KC, local positives become very real and suburban metropolitan negatives are irrelevant.

The hard political choices have already been made, and economically for better or worse, the arena deal is done. Unfortunately, there is always at least one more arena than there are teams. That is the way our professional sports leagues play the venue extortion game.

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