

Economics expert has a way that the Sounds ballpark could work for all

By JOHN VROOMAN
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There are two polarized sides to the economic debate surrounding the Nashville Sounds ballpark deal. In the academic world, economists unanimously hold that public subsidy of sports venues is never justified. In the case of tax increment financing (TIF), academics argue that any positive growth is an illusion that comes at the expense of negative growth somewhere else.

In a global sense, economic activity would be shifted around metropolitan Nashville and the total impact would be zero. Use of property taxes for ballpark funding precludes its use on more important projects. The academic argument is that public funding of a ballpark 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 a 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 74 percent/26 percent in the current \$50 million Sounds deal is completely upside down. The free-riding Sounds are glad-handing, while walking with the check, and Nashville taxpayers are left with the tab.

There is evidence that local multipliers (positive gains near the project) do exist for small minor league baseball parks that anchor larger development projects in the abandoned core of mid-sized cities like Nashville. It is very important, however, that the ballpark be linked to a larger project.

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

As conceived, this deal could still possibly work for Nashville, with a few minor adjustments.

First, the amount of the TIF should be reduced from \$17 million to \$7 million, which falls in line with the intended use of TIF for infrastructure. This reduces public cost from \$37 million to \$27 million and public share from 74 percent to 54 percent.

Second, the Sounds/12-bank loan should be increased from \$13 million to \$23 million, and the private share from 26 percent to 46 percent. This leaves an annual Sounds payment of \$1.7 million over 30 years, funded by \$500,000 from 22 luxury suites, \$300,000 from First Tennessee naming rights, \$650,000 ticket surcharges and \$250,000 Sounds lease.

Given the constraints of pre-existing agreements by Metro, this plan would bring the public/private split to 54/46 percent and much closer to a 50/50 partnership as promised.

Country Hard Ball in Music City: Economics of the Nashville Sounds Ball Park Deal

John Vrooman, Vanderbilt University



—2 February 2007

Sounds Ballpark Debate

There are two polarized sides to the economic debate of the Nashville Sounds Ball Park Deal. In the academic world, economists unanimously hold that public subsidy of sports venues in any form is *never* justified by external stadium spillover or multiplier effects, because spread effects are zero-sum at best. In the case of tax increment financing (*TIF*), academics usually argue that any local incremental growth is an illusion that comes at the expense of economic growth somewhere else. In a global sense economic activity is just shifted around metro Nashville, and the total effect is zero-zip-nada. Use of property tax for ballpark funding precludes its use on more important projects, and so the academic argument is that public involvement falsely prioritizes the public funding of a ballpark used largely for private gain.

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

In the real world, of course the optimum sports-venue public subsidy for society probably lies somewhere in between never and always, depending on the project. There is no hidden secret to the socially optimum public/private venue finance package. Society's welfare maxes out when the guys that benefit are the same guys that pay—nothing more and nothing less. The problem of course is getting everyone who is along for the ride to pony up their fair share. Unfortunately, the public/private split of 74/26 percent in the current \$50 million Sounds Ball Park Deal is completely upside down. The free-riding Sounds are glad-handing, while walking the check, and Nashville taxpayers are left with the tab.

In this particular case, however, there is some evidence that local multipliers (positive gains near the project) do exist for small minor league baseball parks (as opposed to empty football stadiums) that anchor larger comprehensive development projects in the abandoned core of mid-sized cities like Nashville. It is very important, however, that the ballpark be directly linked to the larger project.

There is also evidence that multinuclear cities (metro-areas with many sub-centers) like Nashville are at a political disadvantage because multi-county economic benefit extends well beyond political boundaries and their ability to tax (like Downtown v. Williamson County). In the down-home hard-ball retro-politics of downtown metro, local positives become very real, and suburban metropolitan negatives are irrelevant. As conceived *with pre-existing side agreements*, this *Deal* could still possibly work *for Nashville* with a few minor adjustments. Here are some basic assumptions and key facts about the Sounds Ball Park Deal.

Points of the Sounds Deal (MOU 10/25/2005)

1. Proposed project expense \$50 million (venue \$43 million + \$7 million maintenance).
2. Private placement of \$23 million loan with consortium of 12 local banks led by First Tennessee, to be repaid from sales tax and property tax rebates, ticket surcharge and Sounds lease payment.
3. Property tax increment financing of \$17million from adjacent mixed-use development of \$40 million-\$60 million by Struever Brothers (SBER) of Baltimore with possible total project development of \$230 million (including stadium and parcel and Rolling Mill Hill.)
4. Metro has agreed to pay \$500,000 per year maintenance (\$7 million over 30 years).
5. First Tennessee has agreed to naming rights fees of \$4.3M (\$275,000 per year).
6. SBER's purchase price is \$3 million for parcel of land.
7. Ballpark capacity 11,200: 8,200 fixed seating, 1,500 berm; 1,500 box seats; 22 suites.
8. Attendance 500,000, risk adjusted 400,000; actual 393,682 (2004); 419,412 (2005).
9. Ownership group: Amerisports Companies LLC from Chicago (CEO Glenn Yaeger) who purchased Sounds in 1997 for an estimated price of \$8-10 million. Current value of the Sounds is estimated at \$13.5 million without, and \$18 million with the stadium.

10. Previous owner Larry Schmittou left rent credit of \$3 million for Greer Stadium. Amerisports made \$2 million renovations to Greer and renegotiated lease in 1997 to \$200,000/year. Amerisports refused to pay rent in 2000 arguing \$400,000 was being spent to maintain 23 year-old Greer stadium, and that this was Metro's responsibility. Amerisports threatened relocation to Sounds to Wilson, Sumner or Williamson Counties.
11. Sounds are the AAA affiliate of the Milwaukee Brewers. All player and coaching expenses are born by the Brewers who in turn receive about 4.5 percent of Sounds revenue.

What is TIF (Tax Increment Finance)?

TIF is a way to finance current projects from tax revenues on future incremental gains from the projects, and it is customarily used only in the infrastructure of larger private development projects. For example, in the all-private San Francisco Giants \$319 million AT&T Park (the proto-typical private ballpark in 2000), the only public contribution was a \$15 million *TIF* from the redevelopment agency. In the AT&T financing plan the Giants can cover an \$18 million mortgage from contractually obligated advertising revenue alone.

TIF's are somewhat risky because the tax base depends on the appreciation of the development project, and they require up front funding from other sources. For example, the Gallery project next to the MCI Center in Washington DC was late starting and the local government of DC had to cover bond payments from the general fund during the delays. For this reason, the rule of thumb is that a *TIF* should be covered eight to ten times by the value of the project. For example, a \$13.5 million *TIF* used in site prep for the \$75 million BellSouth Tower in 1991 has since been paid in full. So the proposed *TIF* of \$17 million requires a tax base of \$140 million-\$170 million. The Sounds Deal should link the *TIF* to a much larger project than the \$40 million-\$60 million ballpark, which supports only a \$6 million-\$7 million *TIF* at most.

Current Sounds Deal (MOU 10/25/2005)

Public share of the current Sounds Ballpark Deal

\$17 million	<i>TIF</i> (property taxes earmarked for the stadium)
<u>3 million</u>	Proceeds from sale of mixed-use tract to SBER
\$20 million	Initial Public Capital Outlay
10 million	Sales tax rebate Metro/State (\$700,000/30 years)
<u>7 million</u>	Ballpark maintenance (\$500,000/30 years)
\$37 million	Public expense of Sounds Ballpark Deal

Sounds share of current Ballpark Deal

\$23 million	Private loan from 12-bank syndicate
<u>-10 million</u>	Sales tax rebate Metro/State (\$700K/30 years)
\$13 million	Private Sounds expense (loan less sales tax rebate): 26 percent
<u>37 million</u>	Public expense of Sounds Ballpark: 74 percent
\$50 million	Total Ballpark expense (\$43 million ballpark + \$7 million maintenance)

Suggested Plan B:

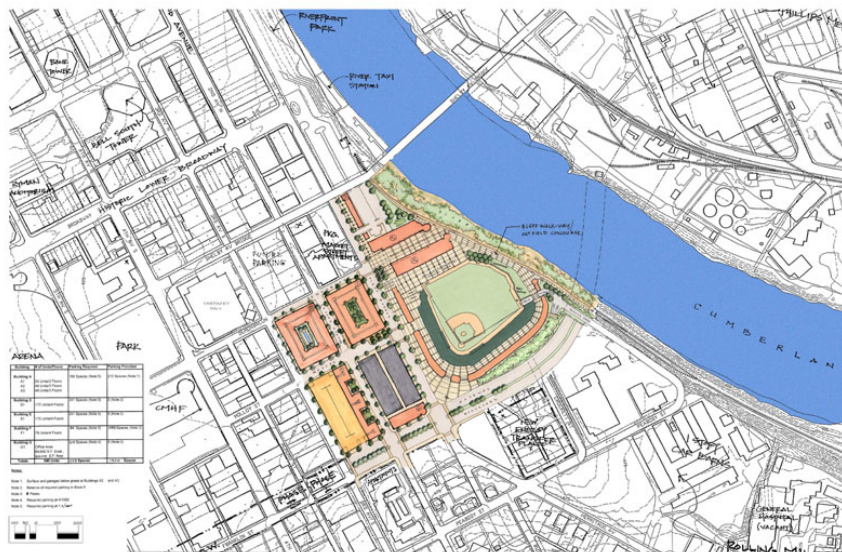
First, the amount of the *TIF* should be reduced by \$10 million from \$17 million to \$7 million, which is justified by the adjacent project and falls more in line with the intended use of *TIF* for infrastructure. This reduces the public cost from \$37 million to \$27 million and public share from 74 percent to 54 percent.

Second, the Sounds/12-bank private loan cost should be increased by \$10 million from \$13 million to \$23 million and the private share from 26 percent to 46 percent. This leaves a mortgage payment of \$2.4 million over 30 years, \$700,000 of which is paid for by the existing sales tax rebate from Metro and State.

Sounds Deal Plan B

\$500,000	20 luxury suites at \$25,000 (suite to owner and First Tennessee)
300,000	First Tennessee naming rights (\$275,000 plus \$25,000 for suite)
500,000	\$1 ticket surcharge for Sounds games (previous Deal)
150,000	\$1.50 surcharge for non-game tickets (previous Deal)
250,000	Sounds residual "lease" payment
<u>\$1,700,000</u>	Sounds annual share of stadium cost
700,000	Sales tax rebate from Metro and State (previous Deal)
<u>\$2,400,000</u>	Annual loan payment to 12-banksyndicate.

This leaves the Sounds paying \$250,000 rent compared to \$200,000 now at Greer, while receiving \$500,000 stadium maintenance and \$1.1 million tax rebate from Metro. The Sounds will have zero player costs, and receive all advertising revenue. The Sounds receive all gate and concession revenues (concessions are roughly equal to gate revenue in minor league baseball). If the multiplier effects exist as we are told, then they can be privately captured by SBER. Given the Sounds previous relocation extortion in 2000, there should be a flight-risk penalty if owners "flip" the franchise, after the public ballpark subsidy has increased Sounds franchise value by one-third from \$13.5 million to an estimated \$18 million. Given pre-existing agreements by Metro, this \$10 million swing from public to private costs brings public/private shares to a 54/46 split, and much closer to a 50/50 partnership as promised.



Aerial View of Nashville Sounds Stadium Project

Recent AAA Stadium Costs

Club	Affiliate	Stadium	Year	Cost
New Orleans Zephyrs	Washington Nats	Zephyr Field	1997	\$25.0
Oklahoma Redhawks	Texas Rangers	SBC Bricktown Park	1998	\$34.2
Tucson Sidewinders	Arizona D-Backs	Tucson Electric Park	1998	\$35.0
Louisville Bats	Cincinnati Reds	Sluggo Field	2000	\$39.0
Memphis Redbirds	St. Louis Cardinals	Autozone Park	2000	\$46.0
Sacramento River Cats	Oakland Athletics	Raley Field	2000	\$40.0
Portland Beavers	San Diego Padres	PGE Park	2001	\$38.0
Fresno Grizzlies	SF Giants	Grizzlies Stadium	2002	\$46.0
Toledo Mud Hens	Detroit Tigers	Fifth Third Field	2002	\$39.2



View of stadium site from right field toward left field (Northwest) Batman in background



View of stadium site from right field toward center field (North) Coliseum in background



MEDIA ADVISORY

Office Of The Mayor

Metropolitan Government of Nashville and Davidson County
107 Metropolitan Courthouse, Nashville, TN 37201
Phone: (615) 862-6000 • Fax: (615) 862-6040

FOR IMMEDIATE RELEASE
October 25, 2005

For further information, contact:
Molly Sudderth, 862-6030

Metro, Sounds agree to MOU

Mayor Bill Purcell and Sounds General Manager Glenn Yeager announced agreement on a Memorandum of Understanding (MOU) for the development of the old Nashville Thermal Transfer Plant site including a ballpark and mixed use development.

Under the agreement the Sounds would obtain private financing for construction of the \$43 million Ballpark.

The 12 acres site would be divided into a Ballpark tract and a Mixed Use tract for development. The Ballpark tract would be leased to the Sounds under a 30 year lease. The Mixed Use tract would be sold for at least \$20 million.

The funds from the sale of the Mixed Use tract would be added to \$23 million in private financing obtained by the Sounds for the construction of the Ballpark.

The transfer of property and financial arrangements would be handled through the Metropolitan Development Housing Authority and the Industrial Development Board. The agreement will require the approval of the MDHA and IDB boards as well as the Metro Council.

Under the agreement Metro could use the Ballpark 15 days each year for events. The city would provide \$500,000 annually for maintenance of the Ballpark.

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Executive Summary
Nashville Sounds Baseball Park and
Other Development of Riverfront Property
Nashville, Tennessee

Overview

- A. The subject property consists of the former thermal plant site and a proposed easement providing pedestrian access to the Shelby Street Pedestrian Bridge. The property is owned by Metro, with a small portion owned by MDHA. The site consists of approximately 12 acres.
- B. This property is the proposed site of the baseball ballpark (the “Ballpark”) for the AAA Nashville Sounds. It is also the proposed site for a mixed-use retail and residential development by a yet-to-be identified developer (the “Development Entity”)
- C. The Memorandum of Understanding (“MOU”) is a document that has been prepared by counsel to Metro and the Sounds with review and comment by the Metro Legal Department and MDHA staff, subject to action by MDHA and the IDB and approval by the Metro Council. The MOU anticipates that after the Development Entity has been identified and has become a party to the MOU, and after other preliminary requirements are completed, a “Closing” will occur. At the Closing, substantially all of the transactions listed in the section below entitled “Transactions at the Closing” will occur.

Transactions at the Closing

- 1. Metro will convey all land at the Thermal Site owned by it (“Metro Land”) to the IDB. Metro is obligated to provide the property to the Nashville Sounds and the Development Entity free of environmental contamination and in a construction-ready condition. Metro must provide a survey of the property and cooperate to accomplish appropriate planning and zoning.
- 2. The IDB will sell the Metro Land to the MDHA for the approximate sum of \$17,000,000. This is referred to as the “MDHA Sales Price”. The source of this \$17,000,000 payment is through tax increment financing (“TIF”) obtained by the Nashville Sounds and the Development Entity from a private lender and repaid from the tax increment created on the property and certain other developments within the Rutledge Hill Redevelopment District.
- 3. The land will be subdivided into two separate parcels, referred to as the “Ballpark Tract” and the “Mixed Use Tract” (also called the “Development Entity Tract”).

4. The Ballpark Tract will be leased by the MDHA to the IDB pursuant to a ground lease. Nominal rent will be charged by the MDHA. The terms of this ground lease will be substantially similar to the terms of the Ballpark Lease (as defined in paragraph 8 below).
5. The MDHA will sell the Mixed Use Tract to the Development Entity. The purchase price paid by the Development Entity (the “MDHA Amount”) is yet to be determined, but the sum of the MDHA Sales Price and the amount paid by the Development Entity will equal at least \$20,000,000.
6. The MDHA will contribute the MDHA Amount to the IDB to the extent required to provide a total of \$20,000,000 for Ballpark Construction (including the MDHA Sales Price).
7. The Development Entity (to be selected with Metro’s approval after the execution of the MOU by Metro) will be responsible for developing the Mixed Use Tract in a manner satisfactory to Metro and MDHA, which will include both retail and residential use. The Development Entity also will be responsible for constructing access from the Shelby Street Pedestrian Bridge to the Ballpark, and Metro and the public will have the right to utilize this access.
8. The IDB will lease the Ballpark Tract to the Nashville Sounds pursuant to a document entitled “Construction Management and Ballpark Lease” (the “Ballpark Lease”).
9. The Nashville Sounds will be responsible for procuring private financing for the construction of the Ballpark. The Nashville Sounds have projected the cost of the Ballpark to equal \$43,000,000. Accordingly, this requires private financing in the amount of \$23,000,000 (“Ballpark Financing”) (which, when added to the \$20,000,000 referenced above will equal \$43,000,000). The Nashville Sounds are responsible for locating the private financing source. The IDB will execute a non-recourse promissory note to the private financing source for this amount. The financing source will be granted security in the form of Nashville Sounds’ receivables, personal property, and a collateral assignment of the Ballpark Lease. The IDB will not grant a deed of trust on the fee simple interest in the Ballpark. If the actual cost of the Ballpark exceeds \$43,000,000, the Nashville Sounds are responsible for such excess cost.
10. Upon satisfaction of all conditions set forth in the Ballpark Lease, the current Greer Stadium lease will be terminated and the early termination penalty will be waived.

Terms of the Ballpark Lease

1. The Nashville Sounds are responsible for constructing the Ballpark on behalf of the IDB, pursuant to a master plan and plans and specifications approved by Metro.
2. Metro has the right to approve all architects, engineers, environmental consultants, construction managers, and other professionals.
3. The term of the Ballpark Lease will be 30 years, with two five-year options to renew.
4. The IDB will be designated by the Metro Council as a “Comparable Municipal Agency” under Tennessee law to permit the IDB to receive sales tax rebates and use these funds for partial payment of the Ballpark Financing.
5. Rent payable by the Nashville Sounds will equal the amount necessary to pay debt service on the Ballpark Financing when added to the state and local sales tax rebates received by the IDB.
6. The Ballpark Lease is designed as a “triple net lease”. Other than preparation and transfer of the land described above, the \$500,000 annual maintenance contribution described below and its own out of pocket expenses, Metro is to have no liability under the lease or any financing arrangements. Metro is responsible for completing the portion of the greenway adjacent to the Ballpark.
7. Metro will be obligated to contribute \$500,000 annually to the Nashville Sounds to be applied to maintenance of the Ballpark.
8. Metro may use the Ballpark for 15 days per calendar year for “Other Events”.
9. The Nashville Sounds are responsible for insurance, both during construction and after completion, in amounts approved by the Metro Risk Manager.
10. The Nashville Sounds are responsible for payment of all utilities and are required to use services of DES.
11. The Nashville Sounds are responsible for all repairs and maintenance of the Ballpark, and must maintain the Ballpark in a first class condition.
12. The Nashville Sounds shall have the right to contract for the naming rights of the ballpark, subject to approval by Metro. The income generated from naming rights will belong to the Nashville Sounds but will be pledged as collateral for the Ballpark Financing.
13. The name of the baseball team shall include the word “Nashville”.

14. The Nashville Sounds shall have the broadcasting rights for the baseball games. Metro shall have broadcasting rights for Other Events (and the net revenues therefrom shall be shared equally with the Nashville Sounds).
15. The Nashville Sounds have the advertising rights for the Ballpark (interior and exterior). This revenue also will be pledged as collateral to the Ballpark Lender.
16. The Nashville Sounds are responsible for concessions at all baseball games. The Nashville Sounds shall own all concession equipment. Metro has limited concession rights for Other Events at the Ballpark.
17. The Nashville Sounds must install, maintain and operate scoreboards.
18. The Nashville Sounds are responsible for all security at baseball games. Metro is responsible for security at Other Events.
19. Certain financial reporting requirements are required of the Nashville Sounds.