Build It and (Maybe) They Will Come:
A Sprint Center Gamble in KC

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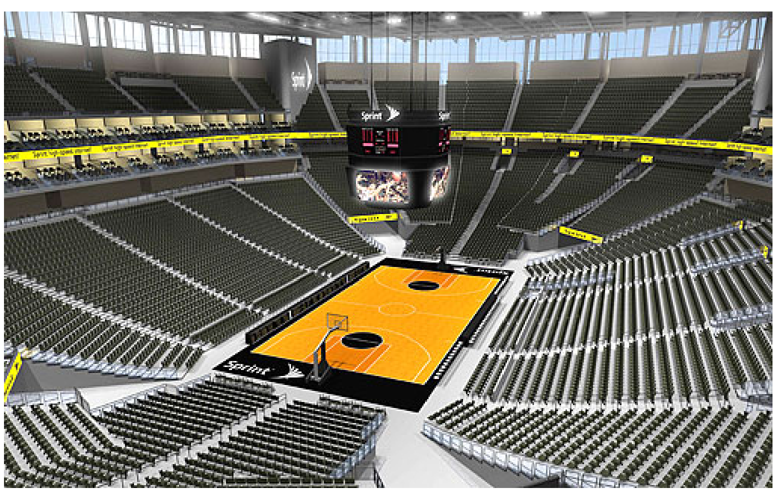

John Vrooman Interview with Soraya McDonald, Associated Press, 31 August 2006

Is Kansas City a large enough market to sustain three professional sports teams?

KC is on the expansion/relocation edge of either the NBA or NHL, and KC is way beyond the margin of supporting both. The critical factor in stadium finance is more corporate presence than actual population, and the recent stadium deals with the Chiefs and Royals may have saturated the market for luxury seating, although all 72 suites at the Sprint Center have reportedly been leased. It is also critical for a potential team from either league to sell 12,000 season tickets before they even show up. This may be tough in metro KC because much of the potential season-ticket fan base resides in Johnson County. The history of arena sports in KC is also not favorable. The NBA Kings lasted only 10 years before moving to Sacramento in 1985, and the NHL Scouts lasted only two years 1974-76 and sold only 2,000 season tickets before moving to Denver.

A major factor overlooked in the Sprint Center deal is the involvement of AEG in the financial package. The good news is that Anschutz is kicking in $53.2 million of the $276 million arena. The bad news is that Anschutz is not going to pony up $50 million unless he can cover his investment at least three or four-times. For example, if the 72 suites have already been leased at an average of $100,000 a pop, then this yields an expected cash flow with a present value of $100 million over the life of the arena. AEG should have paid more or taken less. This is money than would have to go to the prospective owner, say Sam Fingold who just paid $175 million for the NHL Pittsburgh Penguins, to justify the move of the to KC. If a prospective NHL or NBA owner cannot get the premium seat money from the Sprint Center, then Kansas City will have built a $276 million arena for a minor league franchise.

Is it smart for the city to spend $250 million on a new stadium if there's no promise that the city will get a professional sports team?

Almost every objective academic study has shown that there is little relationship between public investment in sports venues and economic development, while most Chamber of Commerce research raves about the tremendous bang for the public buck. If you add that the venue was built with no anchor big-league tenant at all then the academic argument becomes very credible. Build it and they will come is doubly risky business for metro KC.

There is some evidence that some spin-off economic development does occur if the sports arena is located downtown, adjacent to a larger development district (like the Gateway in Cleveland). The problem in KC's deal is that the developer will capture all of the public/private spin-offs while paying none of the arena cost. The good news is that Cordish is developing a restaurant-entertainment district. The bad news is that Cordish is not contributing to the deal in any way. In this case, an equitable finance package should have hit Cordish and adjacent developers with property tax increment financing (TIF) based on their incremental gains from the project.

The rule of thumb is that an arena can stay afloat if it leases out 200 nights a year, and while an anchor NHL club would chew up 41-nights in a regular season, it could be profitable with alternative bookings. Unfortunately, an arena of this expense probably requires a major league anchor tenant.

Is this arena deal "completely upside down" for the city the way you said about the renovations for Truman Sports Complex?

The public/private 60/40 split ($165.8 million + $110.2 million = $276 million) is upside down and the "visitor-tax" funding instrument will lead to major misallocation of arena costs and benefits for local taxpayers. Visitor taxes create an illusion that the tax burden is being exported to patrons outside of KC, but this is not the case. Most car rentals are made by local taxpayers, rather than visitors at the airport, and a $3.50 per day tax is enough to force local car renters to look to take their business to Kansas. There are no positive sum (something for nothing) gains in venue public finance, period.

What are the odds of landing a big-league franchise? KC is not the only empty seat is the arena extortion game of musical chairs. Don't forget Houston, Portland, San Jose, and especially Oklahoma City, who completed another build-it-and-they-will-come arena in 2002 for $89 million.

There are probably four 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 will not allow the Hornets to bolt New Orleans yet, and if they did they would probably go to OKC's Ford Center, where they sold out 35 games last season. The Sonics are currently extorting the City of Seattle for $220 million in renovations at Key Arena, but they have just been bought by Clay Bennett, who hails from--you guessed it--OKC. So the odds are unfavorable for an NBA nomad—Seattle will either give the Sonics a sweetheart deal or they will head for OKC and the Ford Center.

What about the NHL Penguins? Within a month the City of Pittsburgh will probably acquiesce to $290 million arena demands with one of many casino-related public funding proposals. In the end KC will have provided the credible relocation threat necessary for the Pittsburgh deal.

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

Rather than being upside down like the Truman Sports Complex deals, I would say that this deal is completely inside out. The cards have already been dealt, and KC metro is betting a long shot with taxpayer money.

John Vrooman, Vanderbilt University 30, August 2006.

Kansas City, Missouri
Downtown Arena

Funding Plan

Project Cost:	$225 - $250,000,000

Funding Sources:

AEG	$ 50,000,000
Tax Credit Financing	20,000,000
NABC Contributions	10,000,000
Project Financing	170,000,000
TOTAL	$250,000,000

Project Financing:

Annual Funding Requirements	$ 13,250,000
Annual Funding Sources:	
Hotel License Fee	$ 3,375,000
Car Rental License Fee	7,000,000
User Fees/Contract Revenue	4,000,000
TOTAL	$ 14,375,000

Tourism Funding Assumptions:

Hotel License Fee	$1.50 per night
Car Rental License Fee	$3.50 per day

Private Participation:

AEG	$ 50,000,000	
NABC Contributions	10,000,000	
Project Fin. from User Fees/Contract Rev.	47,000,000	
TOTAL	$107,000,000	(43%)

Public Participation:

Project Financing from License Fees	$123,000,000	
Tax Credit Financing	20,000,000	
TOTAL	$143,000,000	(57%)

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