Stadium Mess in Minnesota: New Proposals for Twins and Vikings

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Points of the Deals. On 24 April 2005 the Twins and Hennepin County reached agreement on a $478 million downtown ballpark proposal where the Twins would pay $125 million and the County would fund $353 million tax exempt bonds from a 0.15% sales tax increase. The State is separately being asked for an additional $100 million for a retractable roof.

On 20 September 2005, the Vikings and Anoka County proposed a $675 million stadium with a retractable roof, where the County would match $280 million from the Vikings funded by a 0.75% sales tax increase. The State is being asked for $115 million for site prep and one-third of roof costs, to be funded from sales and incremental taxes on the project. The stadium is part of a larger $1.3 billion commercial development, and the State is being separately asked for an additional $115 million for off-site infrastructure (widening I-35W).

Stadium Deals	**Twins**	**Percent**	**Vikings**	**Percent**
Public Share	**$353M**	**73.8%**	**$395M**	**58.5%**
Private Share	**$125M**	**26.2%**	**$280M**	**41.5%**
Total Cost	**$478M**	**100.0%**	**$675M**	**100.0%**

Both Counties are proposing that there *not* be a sales tax referendum approval of the deals.

General Comments. Both deals are effectively upside down for Twin Cities Metro, and both deals are subject to major inequities and cost-benefit asymmetries on multiple levels.

1. The most obvious inequity is the welfare subsidy of a single-county tax for free-riding non-county fans throughout Twin Cities Metro. This is the problem when intra-metro-politics is mixed with multi-county metro private business. Over one-half of Twins season-tickets are sold outside Hennepin County, and ninety-percent of Vikings tickets are sold outside Anoka County. The political solution is a seven-county Sports Authority like the Metropolitan Sports Facilities Commission. The economic solution is to increase the teams' private funding shares to more closely match the costs and benefits of all Metro-area fans.

2. Public funding is justified only when the benefits of the stadiums extend beyond the private fan base, but only to the extent that external benefits are present. Use of a County-wide tax is never justified for private projects that have zero external spin-offs. Public subsidy for the Twins and Vikings (indirectly their fans) can only be justified if non-fans in the two counties receive some external benefit. Sports venue externalities for non-fans are zero, zip, nada--particularly for seldom used NFL stadiums.

3. A more subtle inequity concerns other teams the free-riding NFL and MLB who economically gain from venues for which they bear none of the costs. The amount of gain depends upon the share of revenue that they take from Minnesota Stadiums. Visiting teams in NFL receive 40 percent of Vikings' gate revenue (after a 15 percent stadium cost hold-back), while visiting teams in MLB take 34 percent of the gate after Twins deduct "stadium expenses." Revenue sharing leagues should bear a symmetric share of venue costs.

4. The most regressive aspect of the proposed stadium deals derives from the choice of a *sales tax* as funding instrument in both cases. A regressive tax like the sales tax shifts the tax burden to those who consume proportionately more of their income on taxable items. In the case of a sales tax the burden lands on lower income groups. This is why recent venue finance packages avoid regressive taxes and head toward incremental taxes paid directly by those who benefit. In venue finance, social welfare is maximized when the guys who benefit are the same guys that pay--nothing more, nothing less.

5. The most noticeable red flag is waved by an aversion of both Counties to seek referendum approval for proposed sales taxes (required by State law). There are several ways to rig a referendum in the County's favor through all-or-nothing bundling of stadium proposals with threats of losing teams altogether. It is even easier to manipulate outcomes of County Councils by strategic vote-trading coalitions that expedite boondoggle projects. In local stadium politics, the usual coalition is both ends of the income spectrum against the middle. If Councils don't trust their own constituents, then distrust should be reversed and both plans should be put before the voters. If the counties want to expedite upside down proposals by avoiding referenda, then they should increase the private share, drop the sales tax and use incremental funding that more accurately tax those who gain from the project.

Alternative Plan B. In order to show the revenue potential from the proposed stadiums, here is a simple alternative based on contractually obligated revenue from premium seats.

Alternative Plan B	**Twins**	**Percent**	**Vikings**	**Percent**
Public Share	**$225M**	**45.0%**	**$75M**	**11.1%**
Private Share	**$275M**	**55.0%**	**$600M**	**88.9%**
Total Cost	**$500M**	**100.0%**	**$675M**	**100.0%**

For the Twins:

1. Current Twins cost estimates have increased to about $500 million. This seems high compared to Cardinals $345 million (2006), Phillies $346 million (2004), Reds $300 million (2004) and Pirates $262 million (2001), and Nationals projected $320 million (2008) hard cost, but reasonable compared to total hard and soft cost of $611million (including $100 million land acquisition) in DC.
2. COR from premium seats would support more than twice the Twins current share, but MLB would bear at least 34 percent of that through stadium cost allowance.
3. County-wide sales tax is replaced in by tax increment financing (TIF) on adjacent warehouse district development of $1.5 billion, and in-stadium sales tax rebate.

For the Vikings:

1. Given size and certainty of cash flow of NFL clubs, and team-owner involvement in adjacent development, Vikings stadium would be essentially private with Anoka County being responsible for one-ninth share for on-site infrastructure.
2. NFL share would be a $50 million loan repaid from visitor-share of premium seat revenue. (NFL approved a G-3 loan of $43 million on previous proposal).
3. State funding is cut, and public money is raised by Anoka County through a $11 million TIF on the $1.3 billion adjacent commercial development.

If new Pittsburgh and Cincinnati venues are comparables, then contractually obligated revenue from premium seats is alone enough to seal the deal.

Alternative Plan B	**Twins**	**Vikings**
Club seats	4,000	8,000
Season price	$3,000	$3,000
Luxury suites	60	120
Season lease	$100,000	$125,000
Club seat revenue	$12.0M	$24.0M
Luxury suite revenue	$6.0M	$15.0M
Annual payment (30 at 5%)	$18.0M	$39.0M
Total Private Cost	**$275.0M**	**$600.0M**

Minneapolis Star-Tribune Interview with John Vrooman, Vanderbilt University 4/5/2006

A year ago, when the St. Louis Cardinals had to put up nearly all the funds for a new stadium, some folks were saying that was the wave of the future; Then comes D.C., with one of the most generous deals ever for MLB. (Now comes Kansas City, with a split decision). So which is the trend of the future?

These deals are very different in their respective public funding shares, because the extortion leverage is also very different in each case. In the St. Louis case the Cardinals took the preferred private alternative only after a more public package died in the Missouri State legislature, and this is what all NFL and MLB clubs can and should do. After a stadium extortion-relocation bluff to East St. Louis Illinois was called, the Cardinals came back to the table, put $90.1 million down and took out a mortgage of $200.5 million in privately placed bonds for their $345 million ballpark that opened the 2006 season. The $15.9 million mortgage payment over 22 years for the Cards can be met from club seats revenue alone (4,000 club seats at $4K each) and covered 1.625 times by a guaranteed $10 million over ten years from 60 luxury suites. The remaining revenue from gate, concessions, sponsorships and media can be spent on the $88 million payroll for this quality NL cub. The important point is that the Cardinals bluff to leave St. Louis was a joke, not only because St. Louis has the best baseball fan support in the league (27,500 season tickets), but more importantly, because there is no superior relocation alternative available in MLB.

When extortion bluffs are called, owners become very creative in building venues with their own hard cash. The best NFL examples are Joe Robbie, (Dolphins) Jack Kent Cooke (Redskins), Jerry Richardson (Panthers) and Bob Kraft (Patriots). All used combinations of luxury suites, and club seats. The previous private gem in MLB is AT&T Park in San Francisco, where one-third of Giants season-ticket holders reside in neighboring Santa Clara County. So when SF voters continued to say no, owner Peter MaGowan went fast after private money in Silicon Valley. The Giants cover their private mortgage payment of $17 million for the $319 million ballpark from contractually obligated advertising revenue (COR) alone. So if two private MLB parks can make a trend, then this is how it should be done--just like any other private business. Unfortunately, these two points are not the trend line, but we are beginning to make progress in the privatization of sports venues..

The key in venue finance is to get the guys who benefit to be the same guys that pay--nothing more, nothing less. This was not a split decision in KC's Tuesday election—it was slam dunk by the teams against Jackson County, Missouri. In KC we now have the poorest guys in the poorest county in the region subsidizing the richest guys in the richest county in Kansas. The $475 million public share of the $575 million stadium package for both KC teams is being funded by a sales tax--the most regressive instrument possible. After threatening to leave if they didn't get the luxury seat revenue they wanted (that's what this is all about anyway—club seats and luxury suites), both teams walked the check.

The situation is even worse in DC, where musical chairs game three years ago found MLB owners extorting maximum public funding from one of the poorest cities in the country. MLB owners collectively purchased the Montreal Expos for $120 million, and then conducted an auction among American cities eager to land an MLB club. It all came down to Portland and. DC. Portland maxed out at a 50/50 public private split and the owners went with the high bid of total public subsidy. This is a classic "winners curse" where the winner in a monopoly auction always pays for more than they get. This auction is unique in that it is the first time the league has negotiated as a cartel against the city first, and finds a franchise owner second. The Nationals will soon be flipped for $450 million, almost 4 times the original price. MLB owners can now enjoy the extortion surplus, rather than the new Nationals owner. His hefty price includes the value of the franchise with the value of the stadium extortion rolled in. Unfortunately, this may be the trend of the future—the NFL played this stadium-deal-first, new-owner-second game in the 1999 Cleveland expansion with a fee of $376 million, and NBA did it with Charlotte in 2005 to the tune of $300 million.

Many of these debates drag on for years. In D.C. it took scarcely 18-months from the time MLB announced it would bring the Expos to Washington to the City Council decision to pony up $611 million for a stadium to make it happen. Why was it so easy in the nation's capital, with its fairly sophisticated, politically savvy constituency?

The DC deal came down fast for two reasons. The monopoly auction power of MLB against one city mentioned above creates a major snooze-you-lose mind set. Second, this public deal was originally made by the mayor, subject to the approval of the DC Council (which is not necessarily as sophisticated as one might believe). The DC deal was never put before the people, because City Council votes are always more easy to manipulate. In a council environment vote trading by any number of voting coalitions can expedite even the most porked-out stadium boondoggle. It is also easy for the teams to manipulate a referendum, by packaging an all or noting proposal like the Chiefs and Royals did on Tuesday. If the threat of the teams to abandon their home city is credible, then the proposed package just has to be preferred by the median (51%) voter over losing either team altogether. This is why the venue votes are always so close (53/47 in KC). This is also why KC kept the $200 million rolling roof as a separate issue (which failed 51/49). Without the Chiefs in this deal, the Royals may have been sent back to the drawing board.

In general, is public participation in stadium financing on the upswing or the downswing (this obviously relates to question1)?

Unfortunately the public funding share is inversely related to market size, and we are approaching the last frontier of cities. So we are now seeing heavy public money, but it is still not the right thing to do. In the last twenty years, almost all of major sports leagues have collectively leveraged their respective franchises from the cookie cutter multipurpose venues that dominated the 1970's into to the new cash cows. The revolution began in 1987 when Joe Robbie thumbed his nose at Dade County and first combined luxury suites (Texas Stadium) and club seats (Arrowhead) to build his own park. The Pistons soon followed in the Palace at Auburn Hills and the Orioles five years later at Camden Yard. Anything built before was a public multi-purpose cavern, anything built afterward was a compact money machine that justified its own private existence. This is what makes the venue extortion game so egregious. Each of these buildings could have and should have been private.

Critics say the public's being asked to subsidize stadiums so that rich owners can make more money; the big cigars say the public gets it's money back and then some. Can they both be right?

No, there are no positive sum games played in sports venue finance, period. There are zero-zip-nada multiplier effects associated with sports venues. The only evidence of an external spread effect might be from a small MLB park placed downtown as an integral part of a larger development project. This is the case in both Giants and Cardinals private ball parks. But it is critically important that the venue be conceived and funded as a part of the incremental value of the larger project. Overall, sports venues are bad public investments.

Finally, anything in particular you notice about the Minnesota Twins stadium debate, which has languished for years?

This is the hardest question of all. The major problem stems from ownership instability for the Vikings and owner obsolescence for the Twins. Recall that the Twins were on the chopping block with the Expos in 2002, but only because the owner was willing to sell. Truth be told, there are several MLB clubs in much worse financial shape than the Twins. The Expos sure, but they are followed in the D-Rays, Marlins, Pirates, Royals and even the Tigers and D-Backs. The Twins are small market, but they are fine at the bottom line. The owner, therefore, may be a problem, and the overall private contribution needs to be more than the 25 percent share of $125 million on the table. If the financial community can put together a consortium of banks and corporate sponsors, the Twins new park can become a privately funded reality. This is how St. Louis gets things done privately. Missourians are just as stubborn and fiscally conservative as Minnesotans, but there is a *always* a strong corporate presence behind everything St. Louis does for its teams. The Twin Cities have the potential for that coalition of team and financial community. If either team needs public help it would however be the Twins, but the public share should not exceed 50 percent.

Owner instability for the Vikings ostensibly seems to derive from the stadium problem, but for an NFL franchise there is no real stadium problem. Smaller cities like Minneapolis-St. Paul have difficulty generating COR (contractually obligated revenue), but more so for the Twins than the Vikings, because the Twins depend more exclusively on the local market for revenues. The Vikings are fully diversified across the country and through time, because of the equally shared NFL TV deal ($22.1 billion over 2006-11). Each and every NFL team is part of a well-diversified (almost perfectly diversified) portfolio of clubs. As a perfect portfolio there is no risk and cash flow is like money. The Vikings could easily double their current offer of $270 million from the COR from luxury suites and club seats alone.

Left out in all of this process is the missing share of the rest of the free riding teams in the respective leagues. In each league now, revenue sharing arrangements allow the teams to deduct stadium expenses before the sharing formulas are applied. The NFL helped finance at least seven stadiums since 2001 using a (G-3) loan program to teams in which the loan was repaid by the visitor share of a team's premium seating. So the teams repaid loans with money they would have shared anyway. In essence, the league was properly paying the visitor share of venue cost. The Bears paid $200 million for the new Soldier Field and $100 million was a G-3 loan. New England Patriots received a $140 million loan to fund the completely private Gillette Stadium after threatening to move to Hartford. The Cowboys are using $100 million NFL loan for part of their $325 million private share in the $650 million stadium in Arlington. Denver Broncos received $50 million, Detroit received $63 million and even the Packers got $13 million. The NFL would loan the Vikings at least $50 million to be repaid by the visitor share of seat premiums.

The New York Yankees have recently proposed to privately fund a new $800 million Yankee Stadium in the Bronx. MLB revenue sharing formula of 66 percent for the home team and 34 percent to the league applies to revenue after deducting for "stadium expenses." In essence, Yankee owner George Steinbrenner can shift 34 percent of stadium cost to the league. If the Yankees can do this, then the Twins can too, but it is only possible *if the ball park is privately funded.* It is time for free-riding leagues to pony up, and put money back into venues to the same tune that they take it out—nothing more, nothing less.

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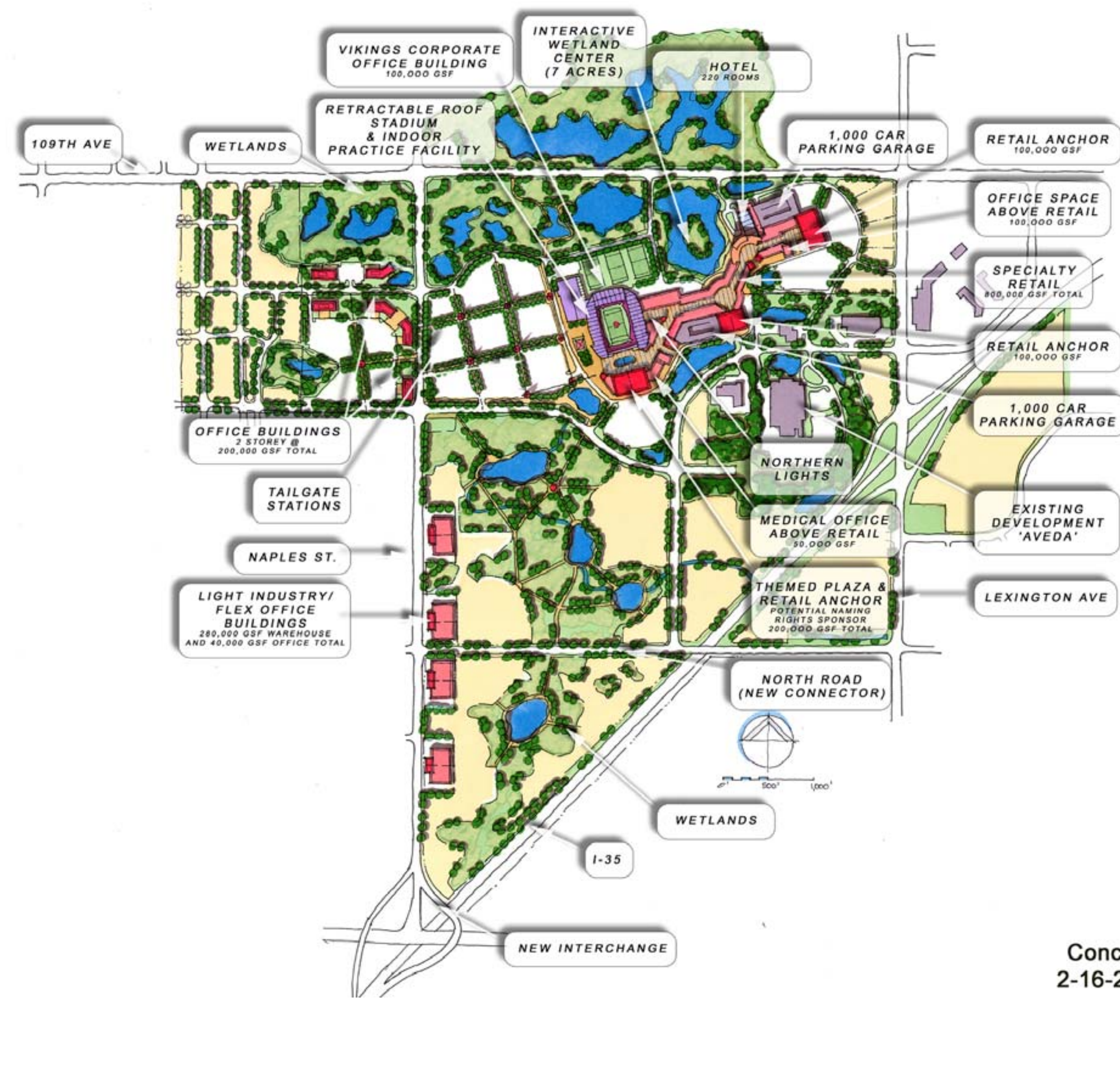

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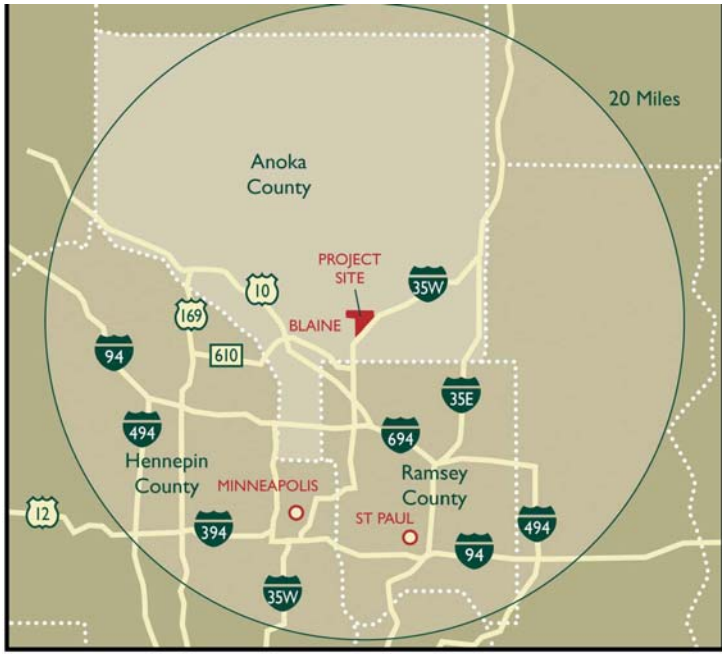
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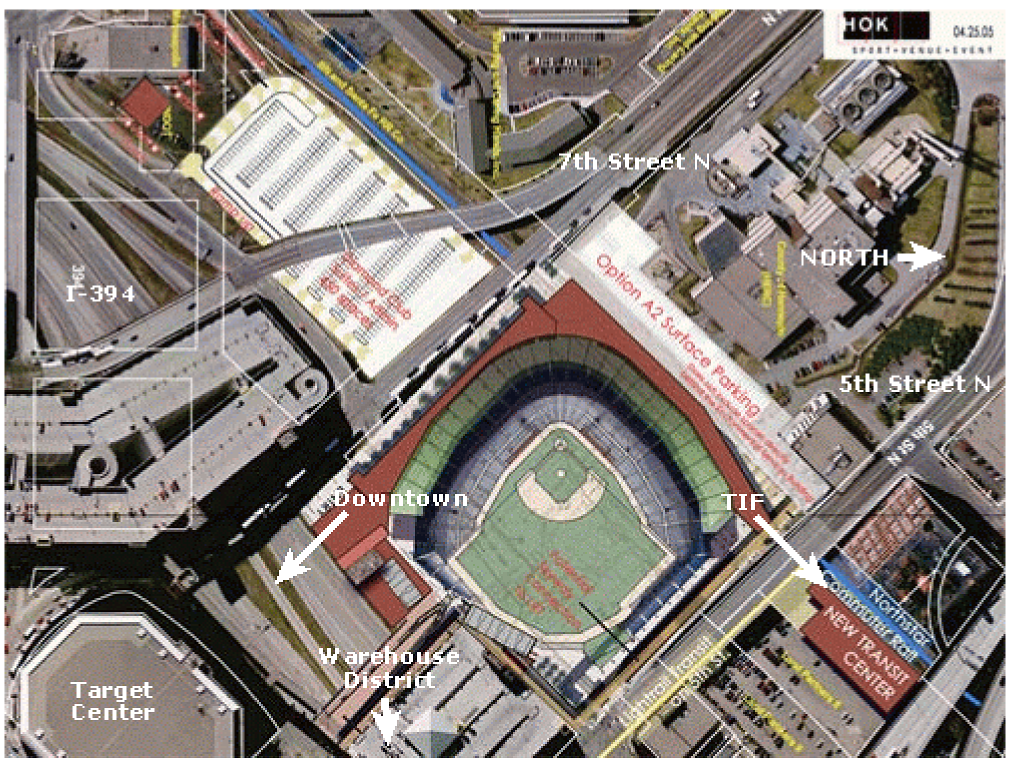
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D.C. takes the fast track to getting a new stadium

The Twins stadium debate is completing its first decade. In the nation's capital, they got it done in just 18 chaotic months.

Kevin Diaz, Star Tribune

WASHINGTON, D.C. - In a rundown industrial area of the nation's capital, just after the City Council approved a $611 million stadium plan for the site, the drag queens at Ziegfeld's cabaret were packing up their bags for good.

"I won't be coming back here for the stadium," said William Stanton, a Diana Ross impersonator, "unless it's for a protest."

In a city sharply divided over a stadium deal for the Washington Nationals baseball team, some bad feelings linger. Still, it took Major League Baseball only 18 months to convince District of Columbia officials to deliver one of the most generous public financing packages in league history.

Unlike Minnesota, where the public and the Twins have been at a decade-long impasse, official Washington is embracing public financing as a civic investment, over the howls of critics who call it corporate welfare for millionaire owners.

Some say the city paid too much; others say the stadium will pay for itself.

Either way, two years from this spring's Opening Day, a state-of-the-art glass and stone stadium is scheduled to replace Ziegfeld's and a row of other drag bars and strip joints, pretty much the only thriving businesses left in a wasteland of warehouses, asphalt lots and concertina wire fences a few blocks south of the Capitol Rotunda.

Bucking a trend set by San Francisco, St. Louis, Kansas City and other cities that either balked or scaled back public financing proposals in recent years, Washington appears to be a special case:

First, it was fighting to get a team back after a 33-year professional baseball hiatus; second, it was negotiating directly with the league, which could easily put a team elsewhere, including just across the Potomac River in Northern Virginia; and, third, only a single legislative body - the D.C. City Council - was needed to seal the deal.

"They were hungry for it," said Hennepin County Commissioner Mike Opat, the architect of a publicly financed ballpark plan for Minneapolis. "They had it and it went away. They had been waiting a long time to bring it back."

The D.C. stadium scramble wasn't always pretty. Chaotic political maneuvering nearly crashed a final agreement to build a new home for the former Montreal Expos several times.

But last month, after a year of political brinkmanship on both sides, the D.C. Council voted 9-4 to approve a stadium deal that commits the city to $611 million in public spending. Major League Baseball's contribution: $20 million, plus $6 million a year rent for 30 years.

That's a far cry from the $125 million contribution from the Minnesota Twins for a proposed $500 million stadium and redevelopment plan that Hennepin County officials have for a ballpark in the Minneapolis Warehouse District.

Some experts think Washington, which ended up vying with Portland for a major league franchise, simply wanted baseball too much.

"This is a classic case of 'winner's curse' where the winner in a monopoly auction always pays for more than they get," said John Vrooman, a Vanderbilt University economist who has studied stadium deals across the nation.

Opponents of the Nationals' stadium deal complained that a council loaded with lame ducks and mayoral hopefuls maneuvered at cross-purposes to sell the city short.

"This was not a decision that enjoyed widespread support among the electorate," said David Catania, one of the four D.C. council members who voted against the deal. "It was a shotgun wedding without much forethought or a lot of analysis."

More than a stadium

But Washington's stadium backers profess an abiding faith in baseball and the riverfront revitalization that they say will come with it.

"We're not a corn field in Iowa," Mayor Anthony Williams said at the peak of the stadium battle last year. "But if we build a ballpark, people will come."

For Williams, bringing baseball back to Washington is a legacy project. City officials say it will build on the success of a new downtown convention center, as well as the Verizon Center (formerly MCI Center), home of the NBA Wizards and NHL Capitals.

The Verizon Center, which helped rejuvenate a shabby downtown area near Chinatown, involved $100 million in District financing. That was paid off in seven years - half the allotted time.

"That has been repaid 10 times over," said D.C. Council Member Jack Evans, one of the leading boosters of a new publicly financed ballpark to replace RFK Stadium, where the Washington Senators played until they absconded to Texas in 1972 and where the Nationals play now.

(It wasn't the first time Major League Baseball turned its back on Washington; a previous incarnation of the Senators left in 1961 to become the Minnesota Twins.)

Polls showed a majority of Washingtonians originally favored a private financing plan to cover at least half the cost of a new stadium - even if it proved to be a deal-breaker for Major League Baseball.

But the plan the District finalized last month relies on a combination of stadium-generated revenues, utilities taxes and a special tax on large businesses. Of $535 million in public borrowing, about $320 million will go toward the stadium. The rest will pay for the redevelopment of the riverfront, where speculators have driven up land prices as talk of baseball heats up.

The new family-friendly ballpark district scheduled to open in 2008 won't include anything like Ziegfeld's, which padlocked its doors last week. "There was more snot and tears in here than someone would want to think about," said longtime manager Jon Parks.

Under the council's legislation, all costs over $611 million, aside from overruns related to buying stadium land, must be paid by non-city sources, including the yet-to-be-determined new owners of the Washington Nationals.

That was one of the few significant concessions by Major League Baseball, which paid an estimated $120 million for the Montreal Expos. With the stadium deal done, and a lease agreement signed, the team is now on the market in D.C. for a reported $450 million.

A sweet deal

If hardly anyone disputes that Major League Baseball owners got a sweet deal in Washington, few believe it could be replicated anywhere else that already has a team.

The Twins ballpark proposal is currently before the Minnesota Legislature, which must approve Hennepin County's proposed 0.15 percent sales tax levy.

In contrast, District of Columbia officials didn't have to appeal to any state legislature, as stadium backers in most cities do.

"It comes down to the simplest rule in the world," Evans said. "We have 13 members on the council, and you have to count to seven."

In the end, they got to nine, including a reluctant Marion Barry, the famous ex-mayor who went to prison for drugs and then won a council seat as an opponent of taxpayer subsidies for baseball.

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