

Arena Demand and Synergy: Areas of Risk

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Outline

Background

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- Context

3 Key Areas of Risk

Conclusions

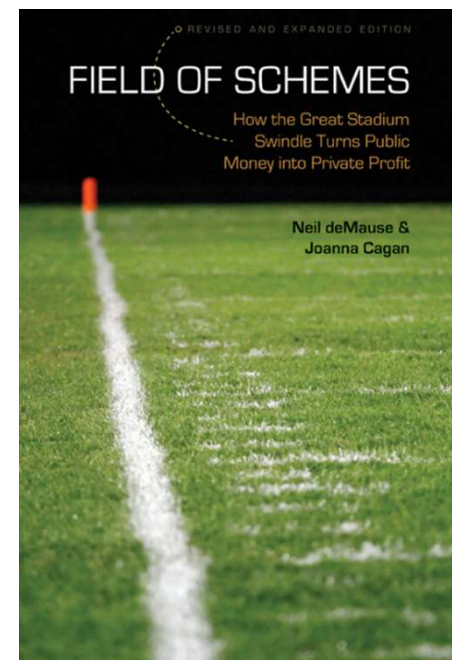
My Perspective: Active and Skeptical

Actively engaged in urban/local politics

- Urban Politics training @ CUNY Graduate Center
- Teaching urban/local politics for ~20 years
- Public-facing work (blog, op-eds, social media, talks)
- Local politics trade book project

Skeptical about arena projects

- Long history of development deals that harm local communities
- Fave text: *Field of Schemes* (U. Nebraska Press, 2008)
by Neil DeMause & Joanna Cagan



My Goals: View from 10,000 Feet

Address commission concerns
about arena demand and synergy

Suggest a general risk profile for
arena projects

Frame a discussion (today and
going forward) on RVA arena
development




Context: Commission Risk Matrix

Defining Key Risk Issues


1. Need for, and synergistic value of, arena
2. Impact on City General Fund activities and capital program
3. Impact on school funding
4. Management and Oversight of projects and programs, including public benefits such as affordable housing, tourism and minority procurement

Key Risk Issues

Key Risk Issues: Arena



The arena lease establishes the 17,500 seat as a technical requirement. What is the market demand and need for a 17,500 seat arena in Richmond? The October 19 NH District response showed only five events needing a space larger than 8,500 seats.



The Hunden report identified average ticket prices of \$48 and \$61 for current and future arena competitors in NC, VA and DC. The October 19 NH District response identified *potential* average ticket prices of \$26 for the Richmond market. How will events at those price points synergize the projected \$51 million in gross 2024 restaurant sales and \$34 million in gross 2024 hotel sales?

Key Areas of Risk

Determining arena demand

- Problems: Benchmarking
- Problems: Operating Costs

Synergistic effects

- Problems: Economists' views
- Problems: Economic impact studies

Catalytic effects on development

- Problems: "Too Big to Fail"
 - Problems: "Keeping Up with the Joneses"
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Determining Arena Demand

How to Determine Market Demand?

Commission asks: why 17.5k seats for RVA? What's the market for a new arena?

No clear science of demand/capacity studies in general

- Very little evidence/data (it's complicated!)
- Reliance on industry cheerleaders with financial stakes
- Reports rarely, IF EVER, recommend against project or modify project scope – “benchmarking for boosters”

As a result, no clear match of arena size to population/demand

Often leads to unrealistic revenue/usage projections and operating losses

How “Benchmarking for Boosters” Works

2018 CSL Report commissioned by Navy Hill

- Selects 9 “similar-sized venues” to Richmond Coliseum
- Why these 9? All newer & larger

Example – Fresno, CA

- CSL selects Save Mart Center
 - University-owned, 2003, 16k capacity
- Why not Selland Arena? Closer to RVA specs
 - City-owned, 1966, 11k capacity

The comparable arenas studied include:

- BOK Center (Tulsa, OK);
- Denny Sanford Premier Center (Sioux Falls, SD);
- Dunkin Donuts Center (Providence, RI);
- Intrust Bank Arena (Wichita, KS);
- Jacksonville Veterans Memorial Arena (Jacksonville, FL);
- Pinnacle Bank Arena (Lincoln, NE);
- Save Mart Center (Fresno, CA);
- Times Union Center (Albany, NY); and,
- Van Andel Arena (Grand Rapids, MI).

Here’s why: comps chosen to highlight inadequacy of existing facility

- Supports the narrative that Richmond Coliseum is too small, old



Lack of Market/Demand = Operating Losses

Arenas often operate at a deficit

- Greensboro, NC's Coliseum Complex – costs \$3-4M annually
- Evansville, IN's Ford Center – costs \$700k annually

If you factor in debt from construction costs, most arenas do not come close to breaking even

- Kansas City's Sprint Center (pictured) generates \$5M annually in tax revenue, but debt service is \$20M

Greensboro: FY 2019-20 Adopted Budget, Greensboro, NC. <https://www.greensboro-nc.gov/departments/budget-evaluation/adopted-budgets>

Evansville: Thomas B. Langhorne, "Arenas Don't Come Cheap." *Evansville Courier & Press*, February 18, 2017. <https://www.courierpress.com/story/news/2017/02/18/arenas-dont-come-cheap/97942424/>

KC: Don Walker, "Kansas City Arena District offers a model – but at a cost." *Milwaukee News*, May 2, 2015. <http://archive.jsonline.com/news/milwaukee/kansas-city-arena-district-offers-a-model-but-at-a-cost-b99492362z1-302330651.html/>

Construction Costs a Concern

Arena project boosters often underestimate full construction costs

- “An almost natural part of building and infrastructure projects” (ASCE technical paper)

DC’s St. Elizabeth’s East basketball arena: \$55M -> \$68M

- Design changes, upgrades, and costlier supplies
- Taxpayers had to cover the difference (good to know: who pays?)

Tax structures can contribute to cost overruns

- Allentown’s \$180M PPL Center - most expensive minor league arena ever?
- Funded by Neighborhood Improvement Zone (NIZ) – all state taxes generated within the district pay debt for construction projects
- Critics: “an almost unlimited font of tax dollars without adequate oversight of how it is spent”



ASCE: Yehiel Rosenfeld. “Root-Cause Analysis of Construction-Cost Overruns.” *Journal of Construction Engineering and Management* 140 (1): 04013039, 2014. [https://doi.org/10.1061/\(ASCE\)CO.1943-7862.0000789](https://doi.org/10.1061/(ASCE)CO.1943-7862.0000789).

DC: Andrew Giambrone. “Price Tag of Taxpayer-Funded Wizards Arena Grows to \$69 Million.” *Washington City Paper*, March 1, 2018. <https://www.washingtoncitypaper.com/news/loose-lips/blog/20994367/price-tag-of-taxpayerfunded-wizards-arena-grows-to-69-million>.

Matt Assad, “How Allentown built the most expensive minor league complex in the country.” *The Morning Call*, September 19, 2015. <https://www.mcall.com/business/mc-allentown-arena-costs-20150919-story.html>

Operating Losses – OK?

Bangor, ME's Cross Insurance Center

- Had to bring in 745k attendees to generate net operating income of only \$21k

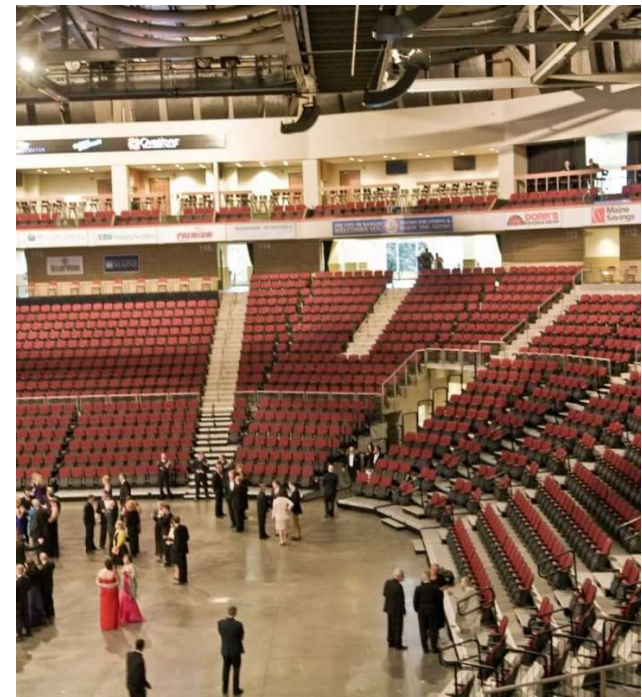
Some argue arena = public amenity, so deficits OK

- “Most facilities are built because of the revenue and traffic they drive throughout the city, not because the venues themselves are significant moneymakers.”
-- Bangor City Manager Cathy Conlow

But this case needs to be clearly made

- Requires transparency with public – no grand promises
- “Revenue and traffic” - do we have evidence of these synergistic effects?

Nick McCrea, “Bangor’s Cross Insurance Center exceeds expectations by making money.” *Bangor Daily News*, March 31, 2016. <https://bangordailynews.com/2016/03/31/news/bangor/bangors-cross-insurance-center-exceeds-expectations-by-making-money/>



A photograph showing two individuals from behind, seated in a control room or press box. They are looking out over a large, crowded hockey arena. The arena's seating is filled with spectators, and the ice rink is visible in the foreground. A prominent blue and white scoreboard or advertisement for "bank arena" is visible in the center of the arena. The scene is dimly lit, with the primary light source being the arena's lights. The text "Synergistic Effects" is overlaid in white, sans-serif font across the middle of the image.

Synergistic Effects

Are There Synergistic Effects?

Arena boosters often claim that facilities attract tourists, boost spending, etc.

BUT Economists generally skeptical about ANY synergistic effects

2017 U. Chicago poll of prominent economists:

- Majority says arena/stadium subsidies “likely to cost the relevant taxpayers more than any local economic benefits that are generated”

Sports economist Michael Leeds: a baseball team "has about the same impact on a community as a midsize department store”

Economists: “Sports Stadiums.” University of Chicago Booth School of Business Initiative on Global Markets, January 31, 2017. <http://www.igmchicago.org/surveys/sports-stadiums>

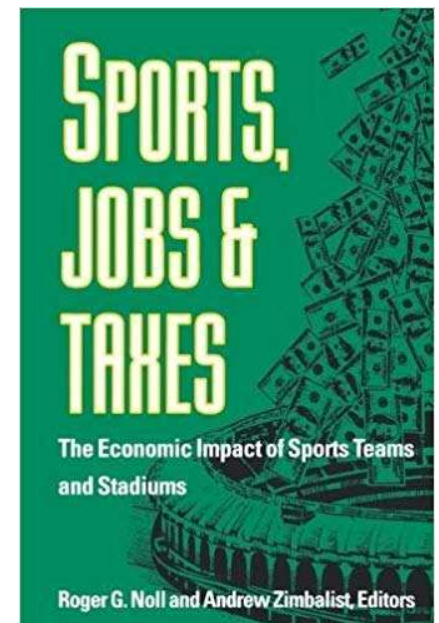
Leeds: Ben Bergman, "The NFL in L.A.? Get Ready for Near Zero Economic Impact." *KQED News*, February 27, 2015. <https://www.kqed.org/news/10444227/new-nfl-team-unlikely-to-have-big-economic-impact-in-southern-california>

Synergy: Economists are Skeptical

Noll and Zimbalist (Brookings) on Sports facilities

- “An extremely small (perhaps even negative) effect on overall economic activity and employment”
- “No recent facility appears to have earned anything approaching a reasonable return on investment”
- “No recent facility has been self-financing in terms of its impact on net tax revenue

“Substitution Effects”: arena pulls in spending that would have gone to other local entertainment options



Roger N. Noll and Andrew Zimbalist, eds. *Sports, Jobs, and Taxes: The Economic Impact of Sports Teams and Stadiums*. 1997. Washington D.C: Brookings Institution Press.

What about “economic impact” studies?

In light of economists’ consensus, we should be skeptical of “impact” studies

In fact, these studies overstate impact in multiple ways

- Compress time frame (“\$1B in impact!” actually \$50M over 20 years)
- Include all spending vs. ROI (translate costs into benefits)
- Include impacts that may not be attributable to the project (the “but for” factor)
- Convert spending into jobs in problematic fashion
- Ignore costs, both real and opportunity

Using this method, EVERYTHING has “impact”!

Studies often used to CHEERLEAD for project by boosters

Best used for COMPARATIVE study of multiple options, not evaluation of a single project

- Needs to be part of a cost-benefit analysis



Catalytic Effects on Development

Impact: Catalytic Development

Little evidence of synergistic effects on consumer spending

BUT there can be synergistic impact on DEVELOPMENT (& developers)

- Arena can trigger/spark additional development projects
- Can make an area seem VIABLE for developers, public officials, and the public

Some additional components are required

- Development partners who continue to invest in a neighborhood
- Additional development/investment streams (arts centers, investment in medical industry, etc.)

But no doubt: in these cases, largescale facility helps kick off development boom

Durham, NC – the “D-Bap”

Durham Bulls Athletic Park – minor league baseball stadium

- \$20M public spending to build (1995), + millions for renovations (2014)

Renaissance in “American Tobacco Historic District” – restaurants, bars, apartments

Other investments

- \$30M public spending on arts center
- Baseball team’s parent company bought and renovated an aging tobacco factory
- Duke University investments



Steve DeVane. “How Durham’s Ballpark Triggered a Downtown Renaissance.” *The Fayetteville Observer*, August 19, 2017. <https://www.fayobserver.com/news/20170819/how-durhams-ballpark-triggered-downtown-renaissance>.

Columbus, OH – Nationwide Arena



\$175M private construction – opened in 2000

- Home of NHL's Blue Jackets

Spurred residential, office development, bars & restaurants

- Minor league baseball stadium
- Public parks and open-air plazas
- Indoor/outdoor theater

Tristan Navera, "Northern arc downtown becoming a billion-dollar boomtown: Here's what's planned." *Columbus Business First*, July 17, 2019.

<https://www.bizjournals.com/columbus/news/2019/07/17/northern-arc-downtown-becoming-a-billion-dollar.html>

Kitty McConnell, "Power Play." *Columbus CEO*, October 1, 2013. <https://www.columbusceo.com/content/stories/2013/10/01/power-play.html>

BUT... Columbus Arena Bailout

Arena originally funded mostly by private investment (Nationwide Insurance)

- Revenue/attendance fell far short of projections
- Blue Jackets threatened to abandon city/arena

Local officials arranged to buy arena in 2012

- Franklin County Convention Facilities Authority paid \$42.5M
- Diverted casino revenues to finance purchase
- Even THESE funds are falling short of projections, so can't pay off the loans
- Added additional ticket tax in 2018 – but this only raises funds for new roof and scoreboard, not debt



Doug Caruso, "Taxpayers Now Own Nationwide Arena." Columbus Dispatch, March 30, 2012. <https://www.dispatch.com/article/20120330/SPORTS/303309735>

Neil deMause, "Columbus arena projects \$47,000 profit by ignoring \$14M in annual unpaid costs." *Field of Schemes*, June 21, 2016. <http://www.fieldofschemes.com/2016/06/21/11254/columbus-arena-projects-47000-profit-by-ignoring-14m-in-annual-unpaid-costs/>

Kevin Landers, "Columbus City Council passes ticket tax." WBNS News, December 10, 2018. <https://www.10tv.com/article/columbus-city-council-passes-ticket-tax>

Arenas: “Too Big to Fail”

Financial structures can insulate municipal budgets/general fund from risk

- Specialized funds/assessments - e.g., TIF
- City/taxpayers not “on the hook” in case revenues fall short or construction delayed

BUT when city commits to massive project - failure is not an option!

- COULD let a project fail, and let investors dangle
- BUT who wants a massive vacant property in middle of downtown?

Local governments are “OBLIGATED” to rescue arena

- Boosters/developers/elites pressure city to provide more funds or bailout failed projects
- During construction, during operations, can be ongoing albatross

Costly Upgrades?



“Keeping up with the Joneses”

- Arena “arms race” requires new amenities and state-of-the-art features

Houston’s NRG Stadium

- Successful host of NFL team, and two Super Bowls (last in 2018)
- Financial trouble - debt restructuring, IRS audit for possible tax violations, tax revenues falling short of projections for years
- Local boosters STILL promoting need for upgrades
 - “The fans, the taxpayers, look at [a] stadium and say, 'Well, it's only 10 years old or it's only 20 years old.' But it in fact is really generations behind.”

Brian T. Smith. “Facing the Reality of NRG Stadium Upgrades.” *Houston Chronicle*, February 12, 2017. <https://www.houstonchronicle.com/sports/columnists/smith/article/Facing-the-reality-of-NRG-Stadium-upgrades-10926138.php>

Conclusions



Key Areas of Risk

Determining arena demand

- Absence of clear benchmarks & market demand
- Arenas often fall far short of revenue projections

Synergistic effects

- Little to no evidence of any synergistic effects on surrounding economy
- “Impacts” are overstated or misrepresented

Catalytic effects on Development

- Arenas can drive development!
- BUT: still risk of financial obligations for local governments

Alternative Paths?

Arena may stimulate downtown development

- Again, for DEVELOPERS and not RESIDENTS/CONSUMERS

In absence of true demand/synergy and with other risks, is it the BEST way to do so?

- Milwaukee, WI – city-built Riverwalk spurred development
- Plano, TX – light rail, housing density, walkable mixed-use, arts district
- Roanoke, VA – downtown housing density, parks & public spaces

How much stimulation is actually needed?

- Richmond, VA: Scott's Addition required little public investment

Milwaukee: Batel Yona, "Milwaukee RiverWalk, 2017-2018 Global Awards for Excellence Winner." *Urban Land Institute*, November 13, 2017. <https://americas.uli.org/awards/milwaukee-riverwalk-2017-global-awards-excellence-finalist/>

Plano: Great Places in America: Neighborhoods - Downtown Plano, American Planning Association, 2015, <https://www.planning.org/greatplaces/neighborhoods/2015/downtownplano.htm>

Roanoke: Mason Adams, "The Small Appalachian City That's Thriving." *Citylab*, December 12, 2017. <https://www.citylab.com/solutions/2017/12/roanoke-virginia-downtown-housing-revitalization/547589/>

Richmond: Harry Kollatz Jr., "Scott's Addition's Miracle Growth." *Richmond Magazine*, October 23, 2017. <https://richmondmagazine.com/news/features/scotts-additions-miracle-growth/>

Further Reading

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QUESTIONS/
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