

THE URBAN PROSPECT

Housing, Planning, and Economic Development in New York

May/June 1996

Volume 2, Number 3

Yankees, Stay Home?

The prospect of constructing a new, West Side stadium for the Yankees has stirred a storm of controversy in the press and in planning circles. A public undertaking of that scope would have major implications for the future development of the Bronx and Manhattan that would require careful scrutiny of complex economic, social and environmental considerations. Distinct from those planning concerns, however, is the question of how much public subsidy would be required and whether the city would be financially able and politically willing to pay.

Most of the press coverage thus far has focused on the gross costs of erecting a new stadium. According to the study prepared by Hellmuth, Obata & Kassabaum (HOK) for the New York City Economic Development Corporation, the New York State Empire State Development Corporation and the Yankees, a single-sport, retractable dome stadium at the west side rail yards would cost \$770.5 million. Neither that study, however, nor the related Peat Marwick LLP financial analysis, detail how such a facility would be financed. The probable public cost of keeping the Yankees in New York City, whether at a new site in Manhattan, the Bronx, or in a refurbished Yankee Stadium, is still largely obscure.

Cost a Hurdle

The HOK study analyzed four base-line alternatives: new stadiums at the West Side Rail Yards, Pelham Bay Park, or Van Cortland Park or a refurbishment of the current Yankee Stadium. The least expensive alternative, renovation of the current stadium, was estimated to cost \$700.5 million. Of the three new stadium options, the West Side site was found to be the cheapest alternative while, at \$990 million, the Van Cortland Park site was the most costly (all figures are exclusive of site acquisition costs). A fifth alternative, a new stadium at the current site, was estimated to cost \$859 million. Stadium construction at the West Side site was projected to be the most expensive, but that cost would be offset, according to HOK, by the lower site development and infrastructure costs there. The renovation option would have the lowest stadium construction costs, but site development and infrastructure was estimated at nearly four times that of the Manhattan option. In each case building a stadium that could also accommodate professional football would add \$250-\$300 million to the cost.

It should be noted that these cost estimates are themselves the source of controversy, with some charging

that the assumptions behind them are biased in favor of the Manhattan site. For purposes of the ensuing discussion, however, they will be taken at face value.

These cost projections would seem to present formidable challenges to any stadium financing plan. Each option involves a total project cost two to four times that of most other baseball stadiums recently built or proposed, while the gate revenues of professional baseball teams do not vary nearly so much among cities. Thus, any of the options would require an additional source of financing. Moreover, any stadium financing package offered to the Yankees could be expected to influence the city's negotiations with the Mets, who are also seeking a new facility.

A critical cost variable — the interest rate on a bond-financed portion of a new stadium — is difficult to predict. The rate would vary according to the mix of taxable and tax-exempt bonds, with market conditions at the time, and with the degree of perceived risk associated with the particular financing package. Taking 7 percent as a baseline, however, if a \$770 million West Side stadium were financed with \$270 million in initial capital and \$500 million of debt, annual debt service payments would total about \$40 million. If the total cost were debt-financed, the annual debt service would be over \$60 million. In addition, the yearly operating costs of a new stadium are estimated at \$11 million in 1996 dollars.

Not Peanuts

American cities are in the midst of a stadium-building boom. According to Fitch Investors Services, of the 113 professional franchises in the four major sports, 31 are playing in facilities built since 1989 and another 39 are planning or seeking new facilities. In baseball alone, new stadiums have been built in Toronto, Baltimore, Chicago, Arlington and Denver and are in some stage of planning or development in Detroit, Milwaukee, Atlanta, Seattle, Cincinnati, Pittsburgh, Boston, Houston, San Francisco, and Phoenix. In several of those cities, the facilities being replaced are newer than either of New York's professional baseball stadiums.

In virtually all instances, direct lease payments from the baseball tenants cover only a portion of the financing costs. The Maryland Stadium Authority receives about \$6.5 million annually from the Baltimore Orioles through direct rent, an admissions tax and other fees. In Arlington, the Texas Rangers pay about \$5.5 million annually in rent for

Continued on Page 2

Yankees

Continued from Page 1

their new ballpark, which opened in 1994. The Yankees currently pay less than \$1 million per year to the New York City Department of Parks and Recreation for the use of the current Yankee Stadium.

The Peat Marwick financial analysis estimates the probable increase in Yankee attendance that would result from each stadium scenario. In 1995 the team drew 2,173,280 patrons; that would rise to 2,860,596 if the stadium were refurbished or if a new one were built at Pelham Bay Park or Van Cortland Park. Attendance would increase to 3,300,750 if a new stadium were built at the West Side site. At an average ticket price of \$15.46 (the Yankees already have the major leagues' highest prices) the increase in gate revenue would then be \$10.6 million at a renovated Yankee Stadium compared to \$17.4 million on the West Side.

In recent years, stadium financing plans have relied increasingly on a variety of premium seating options. At the top of the market are luxury suites, which usually feature private lobby rooms with various amenities adjoining 12 to 16 event seats, and are leased to corporations for terms of three to ten years. The Yankee ownership has been particularly vocal about the lack of such premium seating at the current stadium, which is constrained by its configuration to 19 suites. Jacobs Field in Cleveland, by comparison, has 126 luxury suites. The Peat Marwick analysis anticipates 65 suites at a renovated Yankee Stadium compared to 120 that could be accommodated at a West Side stadium, which the consultants believe could be leased for slightly higher prices. Luxury suites could thus generate an additional \$15 million in annual stadium revenue on the West Side, or \$6 million in a renovated stadium, compared to the current stadium capacity.

Another current trend is toward Club seating—conventional sports seating with more liberal spacing and various service amenities, somewhat analogous to first-class seating on airlines. The current Yankee Stadium has 4,400 club seats; the Peat Marwick study estimates a market of 8,000 club seats at the West Side site. Annual stadium revenues from this type of seating would thus increase by about \$5 million in a renovated stadium and by \$15 million at a new West Side stadium.

A one-time seating revenue source that is attracting increased attention is known as Permanent Seat Licenses (PSL). PSLs entitle the buyer to purchase season tickets for a designated period of time, sometimes for the life of the stadium, and may be resold. These have been particularly effective in raising capital for football stadiums, as professional football seats are usually sold for a full season and are frequently in short supply. The Charlotte Panthers of the National Football League recently sold 62,000 PSLs to raise \$105 million for their new stadium, while the St. Louis Rams sold 46,000 to raise \$70 million. Sales of PSLs for baseball stadiums are considered more problematic, since season ticket availability is rarely limited. Nevertheless, the Texas Rangers used a variation of PSLs to raise \$17 million

for their new stadium, selling non-interest bearing Seat Option Bonds through the Arlington Sports Facilities Development Authority. The bonds, selling at \$500 to \$5,000 depending on seat location, entitle the buyer to purchase season tickets for the life of the bond. Many in the industry are also watching closely the San Francisco Giants' stadium financing, which anticipates \$45 million from the sale of 15,000 PSLs at an average price of \$3,000. The Peat Marwick study estimates that \$15 million could be raised through the sale of PSLs at a renovated Yankee Stadium and \$25 million if the West Side alternative is pursued.

An important source of revenue for modern stadiums is the sale of naming rights. The most familiar corporate sponsorship is probably Coors Field in Denver, the name for which the brewery pays approximately \$1.5 million annually. Banc One has reportedly paid \$55 million for the right to attach its name to the new Phoenix ballpark for 30 years, and the Milwaukee Brewers and San Francisco Giants are reportedly seeking \$40 million naming rights deals for their new stadiums. The financial analysis prepared for EDC, ESDC, and the Yankees estimates naming rights and other advertising would generate about \$9 million in revenue annually for Bronx stadium alternatives and about \$10 million for the West Side option.

Concessions provide another source of initial capital and annual operating revenue. The Peat Marwick study anticipates that sales of "pouring rights" and other concessionaire capital would contribute about \$12 million to the equity financing of a new stadium (consistent with the experience in other cities) and about that much annually in net stadium revenue. Recurring concession revenue would not vary dramatically with the site, depending mostly on attendance and, to some degree, on the distribution between general admission and premium seating ticket sales.

A final financial variable concerns revenue available from events other than major league baseball games. According to Peat Marwick's market demand analysis, a renovated Yankee Stadium with an artificial turf surface could host eight other sporting events, conventions, consumer shows, concerts and the like per year. A West Side stadium with synthetic turf could host 26 such events, but the number would drop to 17 if it were surfaced with natural grass. A baseball/football configuration would not affect demand for these events. Although the study does not quantify the additional stadium revenue that could be generated from these events, it does not

Continued on Page 4

CITIZENS HOUSING AND PLANNING COUNCIL

50 East 42nd Street Suite 407 New York NY 10017
Please call (212) 286-9211 for membership information.

Officers

Frances W. Magee, *President*
David A. Gardner, *Chairman*
Sander Lehrer, *Secretary*
Robert Berne, *Treasurer*

Staff

Frank P. Braconi, *Executive Director*
Marian Sameth, *Associate Director*
Steven Williams, *Senior Policy Analyst*
Micah Berul, *Staff Associate*

CHPC is a nonprofit, non-partisan membership organization
founded in 1937. Contributions are tax deductible.
THE URBAN PROSPECT is free of charge to members.

ALBANY WATCH

Legislators Target Mortgage Insurance Fund

Budget pressures are threatening to undermine the State of New York Mortgage Agency's (SONYMA) mortgage insurance programs. Legislation now pending in Albany would divert revenues currently dedicated to SONYMA's Mortgage Insurance Fund to finance mass transit in the Syracuse area. While that initiative appears headed for defeat, it represents just the latest attempt by legislators to draw funds from this popular program.

Pending Legislation

On June 13, the State Senate passed S.6960, which would divert certain proceeds of the New York Mortgage Recording Tax surcharge away from the Mortgage Insurance Fund (MIF) and into a newly created Central New York Regional Transit Authority benefit fund. Sponsored by Senator John DeFrancisco of Syracuse, the bill would apply to surcharge revenues collected within Onondaga county from mortgages on properties with six or fewer residential units. The value of the diverted funds is estimated at \$2.5 million for the first year.

Senator DeFrancisco's initiative follows a formula used in 1987, when a similar diversion was approved for Metropolitan New York and for the Niagara Region. With that change, approximately 60 percent of surcharge revenues from those areas now go to support mass transit. For Fiscal Year 1994, the total amount diverted was over \$63 million.

Established by statute in 1978, the Mortgage Insurance Fund (MIF) provides partial mortgage insurance to private lenders extending residential and commercial loans in low-income areas of the state. The key benefit of the MIF is its ability to leverage private investment. The Fund is required by law to retain reserves equal to \$15 million plus 20 percent of the value of its policies. As such, each dollar of reserves held in the fund supports five dollars of insurable debt. Since most mortgages are insured at 50 percent of principal balance, that one dollar of reserves can support \$10 of private lending.

Some of New York State's most innovative public and private efforts in the areas of affordable housing and community development are contingent on SONYMA mortgage insurance supported by the MIF. The strength of the MIF lies in its dedicated funding stream, the Mortgage Recording Tax surcharge, which collects \$0.25 on every \$100 of principal for a recorded mortgage. For FY1996, the Fund received approximately \$33 million in surcharge revenues. The existence of this dedicated funding stream allows the MIF to maintain favorable credit ratings from two major credit rating agencies. Those ratings support the sale of bonds backed by SONYMA-insured mortgages, further extending the amount of private investment leveraged by MIF reserves. Ultimately, each

dollar of reserves can generate as much as \$16 in total private investment.

Tempting Target

In past years, the revenue stream provided by the surcharge has presented a tempting target for legislators looking to close budget gaps. The 1987 changes are just one example. In 1991, the legislature considered a proposal to divert approximately \$15 million in surcharge revenues annually as part of a plan to avoid a FY1992 state budget shortfall. That proposal was eventually rejected.

The Central New York Regional Transit Authority (CNYRTA) currently receives funding through a separate mortgage recording tax surcharge (also \$0.25 per \$100 principal) that is dedicated to regional transportation districts. Over the past two years, CNYRTA has seen its revenues from that source drop by 45 percent; at the same time, revenues from federal sources have been cut in half. For CNYRTA, tapping SONYMA's funding source is seen as a last-ditch effort to avoid a state bailout.

Opponents of S.6069 argue that conditions have changed substantially since 1987, when legislators were scrambling to fund the MTA's mammoth capital spending plan without raising subway fares. High levels of mortgage lending combined with low levels of insurance activity had left the MIF with an FY1986 operating surplus of just over \$130 million, allowing the state to divert revenues away from the fund without restricting programs. Today, however, the Fund's surplus is practically zero.

Housing professionals have vigorously opposed the current bill, both because of the short-term effects on SONYMA's insurance programs and for the precedent the bill would set. With the MIF now operating at full capacity, diverting \$2.5 million in revenues would translate into a \$12.5 million reduction in insurable debt. Beyond this, opponents argue that the passage of this bill could encourage legislators to seek similar arrangements for other parts of the state. Legislation to this effect has already been submitted (S.7289), sponsored by Senator DeFrancisco along with Senator Michael Nozzolio of Seneca Falls and Senator James Wright of Watertown. That bill would apply the same diversion formula to 15 counties, reducing MIF revenues by an estimated \$7.5 million in the first year.

In addition to the immediate impact on SONYMA's insurance capabilities, diverting that level of funds away from the MIF could result in a downgrading of the Fund's credit rating. Such an action is rare for a credit enhancement program and would severely lower the marketability of securities backed by SONYMA-insured mortgages. The effect would be a dramatic reduction in SONYMA's ability to leverage private capital for community development.

Currently before the Assembly Ways and Means Committee, S.6069 is not expected to pass the Assembly. Majority Leader Michael Bragman, who also represents Onondaga County, has come out against the bill, as has the Governor's budget office. There is still the possibility, however, that the proposal could come into play as part of a budget deal. If that happens, all bets are off. *(For an update on S.6069, call the bill status hotline at 1-800-342-9860.)* ■

Yankees

Continued from Page 2

appear that they would change significantly the economic feasibility of any of the stadium scenarios.

When the various sources are totaled up, it appears that neither a renovated Yankee Stadium nor a new West Side stadium could generate sufficient one-time revenue to cover more than a small portion of the project costs. Even if *all* of the incremental recurring revenue realized from a new West Side stadium were devoted to debt service on the remaining cost, there would still be an annual shortfall of at least \$30 million (if those revenues were to grow by 3 percent annually due to inflation, the gap would be closed in 15-20 years). A renovated Yankee Stadium, at the cost levels estimated by HOK, would produce a larger revenue gap.

Post-War suburban sports stadiums have not proven to be effective catalysts of economic development, although some analysts argue that the modern generation of downtown stadiums have had more positive effects. The Peat Marwick study found that incremental state and local tax revenue from a renovated Yankee Stadium project would total \$3.8 million annually, compared to \$5 million if a West Side stadium were built. The study analyzed only direct and associated attendee spending, however, and did not attempt to quantify the value of induced economic development.

Most Cities Pay

Most of the new ballparks have been financed with bonds issued by a municipal or state public benefit corporation. Typically, the public share is about 75 percent, although the Detroit Tigers are seeking only 40 percent public financing and the San Francisco Giants, who have been rebuffed by voters in four stadium referenda, are now trying to finance a new stadium without public funds.

To help finance Camden Yards in Baltimore, as well as a new football stadium there, the Maryland Stadium Authority receives \$24 million in proceeds annually from the Maryland State Lottery. A more common method of raising revenue, however, is through sales taxes. In recent years voters or legislatures in Arlington, Phoenix, Cincinnati, Denver, Milwaukee and Seattle (or their surrounding counties) have all voted in favor of sales tax increases to finance new baseball stadiums. Neither is likely to be a source of dedicated public funding for new baseball stadiums in New York City.

Some financial experts believe that tax increment financing would be the most appropriate source of public funding for a new stadium. A special tax district would be drawn around the site of a new stadium, and any increased property tax revenue generated through redevelopment of the area would be used to service the bonds issued to finance the ballpark. This method has been used widely in California and a number of other states for financing economic development projects. New York State law permits the technique under tightly

circumscribed conditions, and it has been seldom used here. Tax increment financing would probably have the greatest economic potential if the West Side site were chosen, where a stadium project could stimulate significant new real estate development. The induced tax increases would probably be less at the existing Yankee Stadium site or, for that matter, in Flushing, where the Mets seek to have a new stadium built. From a legal standpoint, it might be easier to implement a tax increment financing district in the southwest Bronx. Even in Manhattan, however, the tax revenue potential of such financing is inherently unpredictable, so the source of credit backing the bonds would be critical.

Most sports stadiums are financed with a mix of tax-exempt and taxable bonds. Federal law is quite specific about the conditions under which stadium bonds can be issued as tax-exempt public purpose bonds not subject to statutory volume caps, and there is currently legislation in the Senate that would impose further restrictions. If the project did not qualify for public purpose bond financing, it might be financed through tax-exempt private activity bonds. However, that would require an enormous share of the state's annual private activity bonding authority, undoubtedly causing an outcry among others dependent on such tax-exempt financing.

Recent events in Milwaukee dramatize how stadium projects can turn precariously on the nuances of bond financing. Seeking a new stadium by 1999, the Milwaukee Brewers signed a memorandum of understanding with the state and a five-county public corporation, the Southeast Wisconsin Professional Baseball District Board. A \$250 million stadium was to be built with funds raised through a \$160 million tax-exempt bond issue by the Board, to be serviced through a sales tax increase, and a \$50 million taxable bond issue by the Wisconsin Housing and Economic Development Authority (WHEDA), to be paid off through future team revenues. When it became apparent that it would be difficult to market the WHEDA bonds because of the Brewers' uncertain financial condition, a proposal was made to have all of the bonds issued by the stadium Board. The counties represented on the Board, however, were unwilling to have their tax revenues substitute for the full faith and credit of the state, and the plan collapsed. It is now feared that the team will leave Milwaukee. In a final twist, the legislator who had cast the deciding vote in favor of the original plan became the target of an unusual recall vote, causing Republicans to lose control of the Wisconsin State Senate.

Wisconsin's arcane mix of high finance and partisan politics may portend the type of bitter debate in store for New York City in coming months. The city's existing baseball stadiums are, by some standards, outdated, and replacing or renovating them will surely require significant public investment. The public will have to decide whether the risk of losing its baseball teams to surrounding areas is real and, if so, how to value the economic benefits, cultural ambiance and civic prestige of keeping them in the city. Next to those questions, the technical planning of a stadium project is a piece of cake. ■