

Report on the Blue Jackets

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Introduction and Overview

The objective for this report was to collect, organize and present relevant information regarding options for retaining the Blue Jackets in Columbus in order to protect existing economic development of the Arena District and to maintain realistic prospects for additional economic development. The study was commissioned by the Columbus Chamber of Commerce. As part of the assignment, I was asked to review an extensive set of background documents and meet with a variety of individuals and groups in both the public and private sectors to gain additional perspectives.

This report does not present formal recommendations. On the contrary, the request from the Chamber was to identify options and provide information that hopefully will be of use to others who must make critical decisions for themselves and/or for their constituents. Nevertheless, based on my review of documents, and based on my discussions with others, it is my opinion that private investors in the Blue Jackets and Nationwide Arena deserve substantial credit for a program of economic development in the Arena District that has proven to be remarkably successful to date. It is my further opinion that there is a substantial opportunity for continued economic development. However, such prospects are at considerable risk. In particular, retention of the Blue Jackets is critical for any realistic hope of maintaining, let alone enhancing, the existing level of economic activity in the Arena District. Timing could be an essential element as well in so far as: 1) The Blue Jackets have indicated that current financial conditions are not sustainable. 2) Other cities are looking to attract NHL teams, and 3) The Arena District in Columbus has emerged as an attractive model for business development that other cities are attempting to emulate. To paraphrase the parlance of professional sports where one party has a limited amount of time to make a critical decision, Columbus is "On the Clock".

As with any proposal for economic development, the initial costs are high. However, in contrast to many economic development programs that are based on vague and intangible future benefits, evidence of success for the initial round of economic development in the Arena District is both tangible and substantial. Accordingly, it is my sincere hope that relevant parties can work together to explore various options and possibilities for a second round of economic development in the Arena District. A large number of options were suggested to me in discussions. I have attempted to summarize those suggestions in this report. Other options and variation of options are likely to exist as well. I assume, and I hope, that such options will surface in subsequent discussions.

I. The Economic Impact of The Blue Jackets and Nationwide Arena

It is widely acknowledged that the acquisition of the Blue Jackets NHL franchise was essential for the construction of Nationwide Arena. It is also widely acknowledged that the acquisition of the Blue Jackets and the construction of Nationwide Arena were joint catalysts for the subsequent development of the Arena District.

Researchers at the John Glenn School of Public Affairs at The Ohio State University have examined data provided by the Ohio Economic Development Information Network, which is also known as the ES202 Network. As of 2006, which is the most recent year for which the Glenn study had ES2002 data, researchers at the Glenn School were able to identify *business investments in the Arena District totaling more than \$630 million*. As a result of those investments, more than *170 businesses* operate in the Arena District. In 2006, Arena District businesses generated *\$1.6 billion in annual sales* and employed nearly *5,500 workers* who received combined annual *wages of nearly \$350 million*.

The Glenn study also reports that assessed valuations for properties in the Arena District area increased from \$21 per square foot in 1998 to \$76 per square foot in 2008. The *increase in property valuations of 267%* is extraordinary. It is *more than 12 times the average increase of 22% for property valuations in the zip code comprising most of the downtown Columbus area (43215)*.

In addition to direct business development and enhanced property values, the Arena District has attracted a growing number of relatively young and relatively affluent residents. This population is the source of substantial growth in additional income tax revenue as well as additional sales tax revenue both in and around the Arena District.

A study conducted by Nationwide provides estimates of state and local tax revenues that are attributable to the Blue Jackets, the Arena, and the Arena District. I have summarized the major findings of the Nationwide report in the following tables. The first table identifies the distribution of projected tax revenues according to the form of tax collection. The second table reorganizes the same tax estimates according to the tax paying entities.

Table 1
Arena District Tax Revenues by Recipient
(Annual Amounts in Millions)

	Base Year 2008	Year 5 2013	Year 10 2018
State Income Tax	\$14.7	\$21.6	\$28.8
City Income Tax	5.7	8.0	10.8
Real Estate Taxes	6.3	9.7	15.6
Sales, Use and CAT	<u>2.9</u>	<u>4.5</u>	<u>5.5</u>
Total	\$29.6	\$43.8	\$60.7

Table 2
Arena District Tax Revenues by Source
(Annual Amount in Millions)

	Base Year 2008	In Year 2013	In Year 2018
Blue Jackets and Arena	\$ 6.7	\$ 8.4	\$11.1
Existing District Businesses	22.9	27.7	35.0
New District Businesses	<u> </u>	<u>7.7</u>	<u>14.5</u>
Total	\$29.6	\$43.8	\$60.7

As summarized on the last line of both tables, over the next ten years ***combined state and local tax revenue is projected to double from roughly \$30 million per year to roughly \$60 million per year.*** The first line of Table 1 indicates that the State income tax generates roughly one half of the total estimates tax revenue. The State also receives part of the tax revenues listed as Sales, Use and CAT. Real estate tax collections in the Arena District are limited by virtue of abatement agreements and tax increment financings, or TIFs, that were employed to develop the Arena District. However, the City receives part of the real estate taxes that are collected. Together with the income tax noted on line 2 of Table 1, the City receives roughly one quarter of the total tax estimates identified on the last line of Table 1. The remaining tax revenues are divided among schools, COTA and Franklin County.

As noted in Table 2, tax revenues generated by the Blue Jackets and the Arena are projected to increase in dollar amount from \$6.7 million per year to \$11.1 million per year. However, the percentage of total tax revenues is projected to decline from 23% to 18%. Similarly, even though tax revenues by other existing businesses in the Arena are projected to grow in absolute amount from \$22.9 million to \$35 million, the percentage of tax revenues is projected to decline from 77% to 58%. These findings highlight the

fact that the development and growth of new Arena District businesses, as reflected on line 3 of Table 2, is critical for the projected growth in state and local tax revenue.

The projection for a substantial increase in state and local tax revenue is consistent with a finding in the Glenn study that *additional business investments in excess of \$400 million* were in the planning stages at the time of the study which was submitted in June of 2008. The development of Huntington Park, which was in the planning stages at the time of the Glenn study, has been completed as scheduled. However, the subsequent downturn in the national and local economies may have slowed or even cancelled some of the remaining planned investments. Moreover, in so far as the Blue Jackets and Nationwide Arena are widely regarded as essential catalysts for any realistic projection of continued financial growth, the retention of a viable NHL team is critical for any realistic projection for significant growth in future tax revenues from the Arena District.

Subject to the critical assumption that the Blue Jackets remain in Columbus as an economically viable entity, it is my opinion that the estimates of state and local tax revenues provided in the Nationwide report and as summarized in Tables 1 and 2 are conservative for the following reasons.

- a) Estimates for income tax revenues in the base year, 2008, were limited to businesses for which Nationwide had direct knowledge. As a result, calculations were based on wage income for workers in the Arena District in the amount of roughly \$200 million as of 2008, which is less than 60% of the \$350 million in wage income for Arena District workers that the Glenn study has documented for the year 2006.
- b) Estimates for sales tax revenues in the base year, 2008, were also limited to businesses for which Nationwide had direct knowledge. Specifically, in addition to the Blue Jackets and Nationwide Arena, the estimate for sale tax revenues in 2008 was based on sales by 10 restaurants, which represent fewer than 6% of the 170 Arena District businesses documented by the Glenn study for the year 2006.
- c) Estimates developed by Nationwide for tax revenues in the year 2008 are the basis for projections of growth in tax revenues in subsequent years. Accordingly, conservative methods identified in (a) and (b), are also reflected in the projections of future tax revenues.
- d) Estimates provided in the Nationwide report do not include tax revenues generated by an increase in business activity in areas adjacent to the Arena District even though at least part of such increases could reasonably be attributed to the Blue Jackets and the Arena. Examples include additional spending at restaurants and bars in the Short North area during hockey games and non hockey events that are held at the arena.

e) Estimates provided in the Nationwide report do not include additional tax revenues that are the result of indirect effects of business development. In particular, as additional income is generated, recipients of that income will typically spend a substantial portion of the income in the local economy. The respending of income generates additional sales tax revenues and additional income tax revenues. In light of such reality, local tax multipliers as large as 2 or higher are often applied to estimates of the completed economic impact of business development.

f) Projections for growth in City income tax revenues were completed prior to the recent increase in the City income tax rate from 2.0% to 2.5%. Accordingly, the City income tax component of overall estimates is consistently underestimated by a factor of 25%.

As an additional and partially offsetting item, I note that the estimates summarized in Tables 1 and 2 do not identify or net out portions of Arena District tax revenues that are the result of existing businesses that relocate to the Arena District from other parts of the region, as distinct from new businesses that generate net new tax revenues. Despite this observation, and for the reasons identified above, which I regard as dominating, it is my opinion that on balance the additional factors do not materially affect the following conclusions: *a) current levels for state and local tax revenues are greatly enhanced by the Blue Jackets, Nationwide Arena, and the Arena District; and b) the magnitude of enhanced tax revenue is reasonably expected to grow at a substantial rate over the next 10 years, assuming that an appropriate financial solution can be found to retain the Blue Jackets as a viable NHL franchise in Columbus.*

II. Benefits Beyond Measurable Economic Impact

Anyone who was familiar with Columbus prior to the late 1990's can appreciate the remarkable change in an area that suffered an extended period of decline and decay. Today that same area is home to Nationwide Arena, Huntington Park, and a large and vibrant entertainment area known as the Arena District.

Specific forms and examples of different types of impact are numerous and have been summarized elsewhere. For example, the opening paragraph of the web site for Experience Columbus states:

If you haven't visited Columbus in the last 10 years, you won't recognize the area on the northwest side of downtown. The [District](#) has transformed into one of Columbus' most happening entertainment destinations.

Such appreciation for the Arena District is not simply a local opinion. An article published on September 1, 2009 in the Edmonton Sun describes the Arena District in Columbus as a "blueprint for success" to be modeled by other cities that either already have NHL teams or that seek to attract NHL teams. Such a compliment from not just a

Canadian city, but from the home city of legendary hockey great, Wayne Gretzky, can only be interpreted as the highest possible praise.

In addition to the dramatic physical change in the Arena District, the entire City of Columbus, Franklin County and surrounding areas have benefited from the enhanced exposure. In prior years, national surveys typically identified image issues as a major limiting factor for efforts to increase tourism, encourage relocation of new businesses, and attract labor talent. In support of this concern, a survey of meeting planners conducted by Experience Columbus found that Columbus ranked highly on a number of important scales, such as meeting space, hotel brands, and access to population within a one day drive. Yet, Columbus has traditionally lost convention business to other cities with more "sizzle." A national poll of CEOs that was recently conducted by the Columbus Chamber of Commerce suggests that the traditional image of Columbus may be changing. Having an NHL franchise and the additional exposure that comes with it builds awareness of the region and enhances an image of a vibrant metropolitan area. Improved image in turn plays an important role in the attraction of local talent of all forms. Needless to say, failure to find a solution for the Blue Jackets as a financially viable NHL franchise in Columbus would reinforce the traditional image of Columbus as simply a large college town.

Taken as a collection, the record to date in terms of general economic development, tax revenue generation, and non financial benefits can only be described as remarkable. Moreover, other than a relatively modest amount of public funding that was required to develop the land, in a reported amount of roughly \$36 million, virtually all of the investment in the Arena District has been privately financed. Yet even if the Arena had been built with public money, the extent of economic development to date can only be described as exceptional.

Based on success to date, and based on reasonable forecasts for even greater benefit in the future, Columbus has emerged as a model for success to be emulated by other cities including Newark, Kansas City and Toronto, in addition to Edmonton as previously noted. As reported in the *Edmonton Sun*, the CEO for the Edmonton Oilers, Patrick LaForge, recently noted that,

I've had the opportunity to be hosted by those with a recent arena project and the development neighbourhoods. ... I really like the one in Columbus. ... I think that the latest thing. Every time there is a different evolution of these new arenas, it always includes a multi-use district that people feel comfortable living, playing and being entertained in.

The reporter for the *Edmonton Sun* added:

Nationwide Arena opened in 2000. It seats over 18,000 for hockey and also features a second practice rink in the facility. The Arena District, where it's located, is also home to a number of bars, restaurants, nightclubs and a movie theatre. ... Such is a similar vision for Edmonton's new arena district.

To appreciate the sensitivity of economic forecasts to the retention of the Blue Jackets, one need only consider the devastating, but fortunately temporary, effect on businesses in the Arena District during the period of suspended NHL games in late 2004 and early 2005. The Columbus Dispatch published a series of stories detailing the negative impact not only on businesses in the Arena District but also for businesses in adjacent areas and even some businesses in outlying areas. The impact was especially severe in the Arena District. As a result, a major owner of business property in the District, Nationwide Realty, was forced to reduce lease charges by a factor of 50% during the period of suspended NHL play.

As additional perspective for an assessment of the potential impact of a hypothetical loss of the Blue Jackets, one can turn to other cities that have lost NHL teams. The most recent example is Hartford, which lost the Whalers in 1997. Robert Restrepo, who is the CEO for State Auto, was a resident of Hartford in 1997 and has provided a first hand account. In addition, one of the current reporters for the Columbus Dispatch, Michael Arace, also lived in Hartford in 1997 and covered the story of the loss of the Whalers as a reporter for the Hartford Courant. Mr. Arace has relayed his first hand account via the Columbus Chamber of Commerce. Both Mr. Restrepo and Mr. Arace have indicated that the loss of the Whalers was a gut wrenching experience for the city of Hartford. As fate would have it, at the time of the loss of the Whalers, the city of Columbus was thought to be a leading candidate for relocation of the team prior to the defeat of a proposed tax increase to support the construction of an arena.

In terms of economic impact, there were a number of factors that adversely impacted Hartford in the general time frame of the loss of the Whalers. As a result, it is difficult to quantify specific portions of the total economic loss to individual factors. Nevertheless, it is instructive to note that the hockey arena in Hartford was attached to a downtown hotel and mall similar to the Columbus City Center. The downtown mall had suffered significant losses in business to newly developed suburban malls. This pattern was similar to the experience of Columbus City Center vis a vis new malls in Tuttle, Polaris and Easton. The loss of the Whalers was yet another devastating blow for the downtown mall in Hartford. As result, the downtown mall in Hartford was on the brink of collapse, and the first of two national recessions of the 2000s delivered the final blow. As a result, the downtown mall was ultimately demolished in 2004.

III. Competition Among Potential Host Cities for NHL Teams

In recent years, competition has increased among cities that seek to attract or retain NHL teams. One of the effective ways for a city to compete is to provide public financing for a new arena, or public refinancing in the case of an existing arena. A public entity that acquires an arena can look to growth in tax revenues, such as summarized in Tables 1 and 2, as the primary source of return on the public investment in the arena. Accordingly, a public entity that owns an arena is typically willing to reduce or eliminate many if not all of the normal charges that a private owner of an arena would require to produce a reasonable rate of return on an investment in the acquisition of an arena.

Based on similar reasoning, i.e. based on appropriate reliance on tax revenues, a public entity that owns an arena might also be willing and able to share part or all of additional revenue streams for such things as: a) naming rights for the arena; b) parking revenues; and c) concession revenues. As a result of such financial advantages for public ownership of arenas, privately financed hockey arenas are virtually a thing of the past.

A leading consultant for the NHL, MZSports, has examined alternative forms of financial benefits that NHL cities typically provide. Based on that analysis, the Blue Jackets are at a competitive disadvantage in the amount of approximately \$12 million per year compared to the net benefit provided to the average NHL team. Items of particular significance for this comparison include the following:

- a) The Blue Jackets are required to make annual payments of approximately \$5 million to use the Arena. Other NHL teams typically pay much less, or nothing at all.
- b) The Blue Jackets are responsible for managing the Arena on a year round basis. As a result, the Blue Jackets are required to absorb arena operating losses on the order of \$4 or \$5 million per year. Other NHL teams typically either have no such responsibility, or the amount of the loss is shared with other parties.
- c) The Blue Jackets have either limited access, or no access, to certain types of revenue sources that other NHL teams typically enjoy. Examples identified by MZSports that are especially significant in the case of the Blue Jackets include lack of access to payments for naming rights to the Arena, lack of access to parking revenues for hockey games and/or non hockey events, and only limited access to revenues from the sale of founder suites and personal seat licenses in the Arena.

The case of the Nashville Predators illustrates the nature and extent of disadvantages currently faced by the Blue Jackets in Columbus. Following a recent renegotiation with the public entity that owns the arena in Nashville, the Predators are no longer required to make any payments for using the arena. Instead, the team receives a management fee of \$2 million per year. Moreover, the public entity that owns the arena has agreed to cover up to roughly \$4 million in annual operating losses on non hockey events. The difference between the Blue Jackets having to pay \$5 million per year versus receiving a fee of \$2 million per year and not having to cover an annual operating loss of \$4 million per year translates into to a combined financial benefit of \$11 million per year. In addition, the public entity that owns the arena in Nashville has ceded to the Predators a substantial portion of revenue streams including payment for arena naming rights. In the case of the Arena in Columbus, naming rights alone are estimated to be worth \$2 million per year. Hence if even this single item from the list of revenue streams for the Predators were provided to the Blue Jackets, the total amount of financial relief would be \$13 million per year.

IV. Summary of the Blue Jackets Financial Condition

There is no universally accepted measure for the financial condition of a given business entity. Accounting measures of the value of assets and liabilities can provide a snap shot at a particular point in time. However, a snap shot does not provide an indication of the trend in financial condition. To assess the trend in financial condition, a variety of accounting measures can be employed. For example, non cash charges for depreciation and amortization can be included or excluded. Interest earned on business investments and/or interest payments on business debts can similarly be included or excluded. In light of the variation in widely accepted accounting measures, a reasonable case could be made for different numerical values in a reasonably wide range. In particular, I note that following a year of suspended NHL play, which corresponds to the fiscal year ending June 30, 2005, financial statements prepared by the Blue Jackets indicate that financial losses based on standard accounting measures were in the range of \$12.9 to \$16.6 million in 2006, \$5.5 to \$9.9 million in 2007, \$12 to \$16.5 million in 2008 and \$12 to \$15 million in 2009.

The range for measures of operating loss is relatively high for the year 2006, \$12.9 million to \$16.6 million. This is due in large part to a relatively small payment of only \$3 million that the Blue Jackets received from the NHL in what was the initial year for a revenue sharing program that was designed to help teams, like the Blue Jackets, which operate in relatively small markets. The Blue Jackets have subsequently received more substantial payments of roughly \$8 million in 2007, roughly \$10 million in 2008 and roughly \$14 million in 2009.

The range for measures of the operating loss is relatively modest for the year 2007, \$5.5 million to \$9.9 million. Representatives for the Blue Jackets reported that part of the one-year reduction in loss was due to favorable but unexpected events, such as a significant increase in NHL revenue sharing funds from \$3 million in 2006 to \$8 million in 2007.

In light of these observations regarding the years 2006 and 2007, and with the understanding that operating revenues and costs will undoubtedly continue to vary in future years, it is my opinion that operating conditions for the years 2008 and 2009 provide a better indication of the current financial condition for the Blue Jackets than do either: a) the years prior to a suspension of NHL hockey games in 2005 which led to major changes for NHL teams; or b) the first two years following the resumption of NHL competition, 2006 and 2007. Accordingly, based on all of the information I have reviewed, and while I acknowledge that a case can be made for alternative accounting measures of the critical financial gap, it is my opinion that ***\$12 million per year is a conservative measure of the critical financial gap that needs to be addressed.***

It is not necessarily an accident, nor a coincidence, that the magnitude of the financial gap faced by the Blue Jackets, \$12 million per year, is approximately the same as the competitive disadvantage the Blue Jackets face vis a vis other NHL teams. During

a period of increasing competition for hockey talent, one might reasonably expect the level of financial competition to reflect the average level of financial support provided to teams in the NHL. In this sense, at least a rough matching of amounts is to be expected.

As further support for the value of \$12 million per year as an estimate of the financial gap faced by the Blue Jackets, I note that \$12 million per year is also the approximate amount of financial relief the Blue Jackets would have received if the County had purchased the Arena on terms jointly proposed by the Blue Jackets and Nationwide earlier in this year. Essential terms for the proposed sale include:

- a) Approximately \$5 million in annual payments by the Blue Jackets for use of the Arena would have been eliminated.
- b) The operating deficit for non hockey events, in the amount of roughly \$4 million per year, would have been transferred to the County.
- c) An annual payment of \$2 million per year from Nationwide for Arena naming rights would have been initiated on behalf of the Blue Jackets.

Under the terms of the proposed sale, the County would have paid \$10 million to the Blue Jackets in recognition of corresponding interests in the Arena. For example, the Blue Jackets financed the construction of the practice facility and the development of concession areas within the Arena. In addition, \$55 million would have been paid to Nationwide for its interest in the Arena, subject to the condition that Nationwide would have then reinvested all of the proceeds in the Blue Jackets. Depending on rates of interest that the Blue Jackets either pay on outstanding debts or could earn on incremental investments, the injection of new funds in the combined amount of \$65 million would have generated interest savings and/or investment income on the order of \$2 million to \$3 million per year. However, under the terms of the NHL arrangement for the sharing of hockey revenue, MZSports estimates that roughly one half of the proposed annual payment of \$2 million for naming rights (item c above) would have been offset by a reduction in NHL revenue sharing payments. Accordingly, in my opinion, the combined value of the conditions summarized by points (a) through (e) was approximately \$12 million to \$13 million per year: \$5 million savings on current charges for using the arena; transfer to the County of \$4 million in annual operating losses; net payment of \$1 million for naming rights; and interest savings/income of \$2 million to \$3 million per year.

As an additional observation, I note that the ultimate test for a measure of the critical financial gap is how closely that measure captures the willingness of a given set of owners to continue to operate the corresponding business enterprise. Financial contributions to date by existing owners of the Blue Jackets can only be described as extraordinary. The cost of the initial acquisition of the NHL franchise was \$80 million, and subsequent operating losses have more than doubled the effective cost of the investment. In addition, based on estimates of terms for arena usage provided by typical host cities for NHL teams, it would appear that \$12 million per year is a reasonable

estimate of the additional annual value that a potential new host city could and would offer to attract the Blue Jackets.

V. Options for Addressing the Critical Financial Gap

General Observations Regarding Options

In the process of conducting background research for this report, numerous options were identified to address the critical financial gap. I do not claim that this report exhausts the list of all possible options. Nevertheless, the goal for presenting these options was to be as comprehensive as possible. Options are not listed in terms of priority. Nor does the listing of an option mean to suggest that the option is necessarily viable. And finally, I do not intend to imply that every option on the list has the potential to fully address the critical financial gap on its own. On the contrary, it might well be the case that the best overall approach will involve a combination of different options.

A. Private Sector Options

In principle, additional revenues from any sources and cost reductions of any forms are candidates for potential financial relief. However, by virtue of the nature and magnitude of the financial gap, some options are likely to have more potential than others in terms of addressing the financial gap. Accordingly, it is instructive to identify major factors that contribute to the financial gap identified in prior sections of this report. In particular, the Blue Jackets also manage the use of Nationwide Arena for non hockey events. Precise allocation of revenues and costs between the two business segments is beyond the objectives of this report. Nevertheless, in so far as the arena management business would appear to be a major contributing factor to the general financial condition of the Blue Jackets, it is useful to consider options for dealing with each of the two distinct business segments.

In terms of hockey operations, the Blue Jackets enjoyed an initial honeymoon period during its first few years of operation. Revenue from hockey ticket sales plus sponsorship and broadcast revenues totaled \$57.6 million in 2001, which was the first full year of hockey operations. This measure of hockey revenue grew to \$60.3 million in 2003 and reached a high value of \$62.3 million in 2004. NHL play was suspended during fiscal year 2005. However, in the years following suspended play, hockey revenues have fallen short of the earlier amounts. The sum of hockey ticket sales and sponsorship and broadcast revenues was \$54.7 million in 2006, \$55.6 million in 2007, \$53.8 in 2008 and \$60.3 million in 2009.

Audited financial statements report that hockey operating costs totaled \$54.8 in 2006, \$47.1 in 2007, \$51.6 in 2008 and \$54.6 million in 2009. Based on this narrow measure of costs, it would appear that the Blue Jackets are roughly breaking even in terms of hockey operations. There are two significant qualifications for this conclusion. First, the reported amount for hockey operating costs includes a significant reduction, or

netting out, for payments received from the NHL under the league revenue sharing arrangements. As previously noted, these amounts totaled approximately \$3 million in 2006, \$8 million in 2007, \$10 million in 2008 and \$14 million in 2009. In the absence of such payments, reported operating costs would have exceeded reported hockey revenue by a substantial amount. In addition, the simple difference between hockey revenues and hockey operating costs does not include an allocation of overhead expenses such as sales, marketing, general and administrative, or payments that the Blue Jackets are required to make for use of the Arena. Nor does the simple comparison of narrow expenses to narrow revenues include an allocation of additional sources of revenue, such as the sale of concessions or the sale of retail items.

A-1. Increase Hockey Ticket Sales

MZSports has estimated that if the Blue Jackets could sell out all of their games, they could earn an additional \$12 million in annual revenue. However, the consultant also notes that the Blue Jackets could lose as much as one half of the nominal gain in revenue by virtue of a corresponding reduction in revenue sharing funds from the NHL. Hence the maximum potential net gain in annual revenue is likely closer to \$6 million per year. Such a gain would eliminate one half of the critical financial gap of \$12 million. However, Columbus is the second smallest market for NHL teams, and the Blue Jackets are presumably already making their best efforts to promote ticket sales. For example, following the resumption of NHL games in 2006, the average price for NHL ticket sales increased from \$41.19 per seat to \$48.72 per seat. The increase in ticket prices for Blue Jacket games was roughly half that for the league as ticket prices rose from \$41.62 per seat in 2006 to \$45.53 per seat in 2008. Nevertheless, over this period, attendance at Blue Jackets games fell from an average of 16,796 to 14,823 per game, whereas average attendance for all NHL games rose from 16,995 to 17,265.

A-2. Decrease Hockey Costs.

With respect to hockey costs, MZSports has determined that the Blue Jackets have consistently operated below the median level of costs for other NHL teams. Moreover, this pattern existed even prior to the application of NHL revenue sharing funds which are technically reported as a reduction in hockey operating costs. This observation suggests that significant additional improvement in terms of hockey costs is unlikely. Moreover, assuming the Blue Jackets continue to attempt to grow revenues by building teams that are even more competitive, the relative cost of hockey operations might actually increase rather than decrease in future years.

A-3. Improve the Management of Non Hockey Events

As reported in financial statements, the Blue Jackets earned additional revenues from non hockey events in the amount of \$8.1 million in 2006, \$7.8 million in 2007, \$9.2 million in 2008 and \$4.1 million in 2009. The financial statements identify building operating costs of \$12.5 million in 2006, \$12.3 million in 2007, \$13.8 million in 2008 and \$10.1 million in 2009. A simple netting of the corresponding year by year amounts

suggests that annual losses from the arena management business were on the order of \$4.4 million in 2006, \$4.5 million in 2007, \$4.6 million in 2008 and \$6 million in 2009.

As with the comparison of hockey revenues to hockey costs, a simple comparison of non hockey revenues to non hockey costs ignores the allocation of other revenue items and general overhead expenses. The Blue Jackets provide a more complete allocation of costs and revenues in a non audited financial statement. That statement indicates that operating losses from arena management were on the order of \$3.7 million in 2006, \$3.8 million in 2007, and \$4.0 million in 2008. However, even this more comprehensive breakdown does not include overhead charges, such as the Arena lease charge and other fixed payments the Blue Jackets are required to make for using the arena for non hockey events. Despite this ambiguity, it is clear that the management of the Arena for non hockey events is a major source of the financial problems currently confronting the Blue Jackets. I am not aware of any obvious strategies for improvement in this area. Nevertheless, for the sake of completeness, I have added it to the list of options.

A-4. Attract a Second Major Tenant for the Arena

Even in a relatively large market that enjoys a corresponding increase in access to non hockey events, an arena typically struggles in terms of operating costs unless there is a second major tenant. Until recently, a team from the indoor football league, the Destroyers, shared the Arena. However, the revenue from even those games was limited. Financial issues that arise for a single tenant arena are increasingly severe in an era of a declining number of non sporting events that require seating capacity provided by the Arena. The recent downturn in the economy has undoubtedly contributed to this problem as well. However, even if the economy were to improve, there need not be a corresponding increase in the number of events that require large indoor seating capacity. In addition, by virtue of the limited size of the market, Columbus is at a disadvantage, not only with respect to revenues generated by hockey games, but in terms of competition among potential hosts for major national or regional events, such as music concerts.

Several parties I spoke with asked if it might be possible to attract a second major tenant, such as an NBA team. As with other suggestions, I have added this option to the list. However, none of the material I have reviewed and none of the parties I spoke with indicated that a second major tenant was likely. On the contrary, knowledgeable parties I spoke with indicated that there is no realistic opportunity for a second major tenant, such as an NBA team, in a market as small as Columbus.

A-5. Coordination with Other Venues

It was also noted in multiple conversations that even for non hockey events where the city of Columbus is an appropriate location, the Arena must compete with alternative venues, such as the Value City Arena at the OSU Jerome Schottenstein Center, and Veterans Memorial. Hence a potential option for at least limited financial relief might be to attempt to coordinate the marketing and management of major arenas in the Columbus area. It was suggested that it might even be advantageous to coordinate bookings with

other entities, such as the Columbus Convention Center and the Huntington Park, which happens to be adjacent to the Arena. While there is presumably less direct overlap in terms of bookings for specific events, it was suggested that there still could be at least a modest financial gain in terms of management operating efficiency.

A-6. Renegotiate Existing Terms

In addition to potential gains in revenue and the potential reduction in costs for both hockey games and non hockey events, the Blue Jackets could attempt to renegotiate with various parties in order to:

- a) Reduce or eliminate current charges for using the Arena.
- b) Receive payments for naming rights to the Arena and/or other forms of sponsorship revenues.
- c) Receive payments for parking fees or surcharges at Arena events.
- d) Increase broadcast revenues.
- e) Increase revenues from the sale of founder suites and seat licenses.
- f) Increase revenues from concessions at hockey games and non hockey events.
- g) Receive additional payments in the form of fees or surcharges on businesses that benefit from the retention of the Blue Jackets.

In principle, any of the items listed above could contribute to a financial solution. However, to the extent that options on this list would involve renegotiation between existing parties, I am not aware of realistic hope for significant improvement in terms. Nevertheless, items on the list are included for the sake of completeness.

B. Alternative Private Ownership Structures

Current investors in the Blue Jackets and/or Nationwide Arena might wish to explore private alternatives to the existing ownership structures. For example, the recent excise tax proposal that was presented to the County included a provision for Nationwide to reinvest the proceeds of its sale of the Arena into the Team. In effect, this provision would have broadened the base for absorbing future operating losses to the extent that the remaining provisions of the proposal were unable to entirely eliminate the prospect of future operating losses. For similar reasons, the Blue Jackets might wish to consider selling additional shares of the partnership to other private investors. In an extreme case, the existing owners could even consider selling part or all of the Blue Jackets to the general public as was done in the case of the Green Bay Packers. Such steps would not address the underlying issue of recurring financial losses. They would simply provide an

opportunity for potentially distributing the losses across a different and potentially deeper investment pool.

C. Additional Options for a Public Private Partnership

C-1. Renegotiate Arena Leasing Terms

As previously noted in this report, a major advantage of a publicly owned arena is that the public entity can reasonably consider the protection of existing tax revenues and the potential for enhanced tax revenues as the primary source of return on a public investment in an arena. Accordingly, the effective size of an existing financial gap for an NHL team could be substantially reduced. In the case of the Blue Jackets, the estimated financial gap of \$12 million per year could be roughly cut in half by:

- a) Eliminating the required annual payments in the amount of \$5 million, and
- b) Initiating a payment for Arena naming rights in the amount of \$2 million, with the expectation that one half of such payment, or \$1 million would result in a reduction in marketing revenue sharing payments from the NHL.

C-2. Coordinate Management with Other Venues

If a public entity were to acquire the Arena, that entity might have greater flexibility in terms of exploring options for coordinating or consolidating the booking of non hockey events with bookings at the Schottenstein Center at OSU and/or other public venues such as Veterans Memorial, the Convention Center, and Huntington Park.

C-3. Public Sources of Annual Revenue

Despite significant financial advantages for the public ownership of an arena, an acquiring entity would undoubtedly require additional funding to cover operating costs and to service the debt required for an acquisition. Options for obtaining such funds include:

- a) Reallocate existing general funds of the state, city or county.
- b) Allocate new sources of public revenue, as in the case of a new form of fees or taxation, or an increase in the rate for an existing tax or an existing fee.
- c) Allocate a portion of the projected growth in the amount of public funds that are generated by the Blue Jackets, the Arena and associated economic development.

Individuals I spoke with indicated that a reallocation of existing general funds is unlikely in light of prevailing economic conditions. Nevertheless, the option is included for the sake of completeness.

With respect to a new tax or fee, or an increase in the rate for an existing tax or fee, a levying authority would have an important choice to make. It could target a broad range of economic activity and a wide group of taxpayers, as in the case of a general income tax or a general sales tax. Alternatively, the authority can focus the tax or fee on specific products and/or specific payers. As discussed below, each of these options has advantages and disadvantages.

A major advantage of broad-based option is that it distributes the burden so as to minimize the impact on any one group of products or individuals. The disadvantage is that the broad-based option is least likely to effectively match costs and benefits for individual citizens.

Revenue options that focus on a narrower group of payers and/or a narrower set of products or economic services require higher rates for taxes or fees to offset the reduction in scope. However, there is greater opportunity for more closely matching costs with individuals or business that benefit from the underlying activity, in this case, fans of the Blue Jackets and businesses that benefit from the associated economic development.

Options that target a specific region, such as the Arena District itself, enjoy a similar advantage in terms of the general effort to match costs to those enjoying the greatest benefit. However, as with any other effort to narrow the focus of the revenue option, the narrower the focus, the greater the required rate for the tax or fee to achieve a given financial result.

Examples of options that would combine a narrow focus on payers in combination with a narrow focus on products and services include surcharges on parking and tickets to hockey events and/or other types of business activity in the Arena District.

C-4. Excise Tax on Alcohol and Tobacco Products

With respect to the history of tax efforts, referendums were passed in 1995 and 1996 to support the construction of publicly owned sports stadiums in Cincinnati and Cleveland. In 1997, a tax proposal was put on the ballot for the construction and operation of a publicly owned hockey arena. That ballot measure was defeated. More recently, the Blue Jackets proposed an alternative tax structure that was specifically modeled after a tax structure successfully employed for the construction and operation of sports facilities in Cleveland for use by the Indians and the Cavaliers. Estimates provided by the Blue Jackets indicate that a corresponding proposal for Franklin County tax would have generated additional tax revenue of roughly \$13.4 million in the first year. Tax revenue was projected to grow by a modest amount thereafter. The additional tax revenue was deemed to be more than sufficient to service the public debt that would have been issued to purchase the Arena from Nationwide. Under the proposal, tax revenues in excess of the required debt service would have been used to cover projected operating losses for the Arena, in the amount of roughly \$4 million per year, and would also allow for the build up of a modest discretionary fund over time. From the standpoint of this

report, an additional aspect of significance is that the proposed funding of Arena acquisition costs and Arena operating costs could have eliminated the need for annual payments from the Blue Jackets at a level of roughly \$5 million per year. However, the County would have had to cover part of the reduction to maintain the build up of a capital reserve for the Arena in the amount of roughly \$1 million per year, and to continue to make payments of roughly \$1 million per year to local schools in lieu of property taxes, which were on an abatement schedule.

In light of the prior ballot history, voter support for a future effort might be unlikely, and perhaps especially so under current economic conditions. Nevertheless, in so far as the Blue Jacket franchise and the Arena District are now tangible entities rather than mere possibilities, as they were in 1997, it is possible that voters would be more receptive to a tax initiative of some form at the level of the City, the County, the State, or even a region within the State. As previously noted in this report, if the costs of acquisition and operation of the Arena could be funded by new tax revenues, budgets of the City, County and State would all benefit by substantial amounts if the initiative were to succeed and thus assure the continuing viability of the Blue Jackets in Columbus.

C-5. Hotel/Motel Bed Tax and/or Car Rental Tax

A hotel/motel bed tax or fee was suggested as a possible alternative to the recently proposed excise tax on alcohol and tobacco products. The current rate for the hotel/motel bed tax is 10%. It is my understanding that under current State law roughly one half of this amount, 4.9%, is allocated to the Franklin County Convention Facilities Authority (FCCFA). A report prepared by the Auditor for the City of Columbus indicates that in the year 2008, the bed tax generated revenues of roughly \$16.5 million for the FCCFA. Competition for existing bed tax revenue is already intense. However, it was noted that the Blue Jackets and the Arena contribute to the creation of such revenues. In particular, the Glenn study reports that for the three year period from 2005 through 2007, more than 580,000 people attended events that made joint use of the Arena and the Convention Center. Attendees from out of town accounted for more than 132,000 hotel room nights, and event attendees collectively accounted for spending in excess of \$210 million. Blue Jacket home games and non hockey events that are independent from the Convention Center contribute to the hotel room night count as well.

If the reallocation of existing bed tax revenue is not a viable option, then perhaps the State would be willing to authorize an increase in the statutory maximum rate for the bed tax. Based on the report prepared by the City Auditor, it would appear that an increase in the bed tax rate from 10% to 11% would generate annual revenues of approximately \$3 million.

With respect to potential viability of a hotel/motel bed tax, a study prepared by the National Business Travel Association in 2009 has concluded that Columbus ranks at the top among major cities in terms of the existing bed tax. However, Columbus ranks substantially lower among major cities in terms of the combined rate of taxation and fees for various forms of travel related products and services. A tax or fee on car rentals was

suggested as an alternative to the bed tax. In support of this option, the NBTA study determined that Columbus ranks at the bottom among major cities in terms of taxes and fees on car rentals. Other options for potential fees or taxes include food and beverages, surcharges for various types of events, and/or for parking at various types of events.

C-6. Benefit Zone Taxation

With respect to a narrowing of the geographic area for the incidence of taxes or fees, at present there is no formal designation for the "Arena District." Nevertheless, it might be possible to provide such a formal designation, and possibly include adjacent areas in a program of supplemental taxes or fees for various products or services. As previously noted, an advantage of a "benefit zone" tax is that it would focus the burden on specific businesses and individuals that presumably stand to benefit the most from retention of the Blue Jackets and continued economic development of the Arena District.

C-7. Designating a Portion of the Projected Growth in Tax Revenues

As illustrated in Tables 1 and 2, even conservative estimates of state and local tax revenues that are generated by businesses in the Arena District exceed the size of the financial gap by a factor of two and one half (\$30 million per year versus \$12 million per year). Within ten years, state and local tax revenues are projected to exceed the financial gap by a factor of five (\$60 million per year versus \$12 million per year). Accordingly, it might be possible to reach an agreement with one or more of taxing authorities to dedicate a portion of the future growth in existing tax revenue streams. By virtue of the size of the projected increases in state and local tax revenues, this option alone could address a substantial portion of the financial gap.

C-8. Tax Exempt Debt Financing

When state or local government projects are funded by issuing debt, interest on the debt is typically exempt from income taxes levied by the federal government and by the host state for the project. In principle, tax exempt debt could be used to fund a public acquisition of the Arena. In effect, the federal government and the State of Ohio would informally but effectively redirect a portion of their respective future income tax collections to reduce the interest cost of the acquisition of the Arena by another public entity. The precise amount of the combined contribution depends on market rates of interest. However, under typical conditions, the contribution amounts to roughly one third of what would be the normal interest cost of any financing required for the acquisition.

Because the amount of the contribution from federal and state governments is tied to the interest cost of an acquisition, it is generally beneficial to include as many items of value as possible in the acquisition. For example, the level for tax exempt debt could be chosen to cover not only the financial interest of Nationwide in the Arena, but other interests as well, such as the financial interest that the Blue Jackets acquired by virtue of its funding of a practice facility that is attached to the Arena, and/or additional property

and rights that the Team acquired to develop concession areas of the Arena. Even the Team's interest in terms of promotion rights for the Arena Concourse could be eligible for tax exempt debt finance and thus would indirectly generate additional contribution from the federal and state governments.

Based on similar logic, other economic terms for a potential ownership transfer can also be adjusted to enhance the value of the property being transferred and thereby increase the amount of contribution provided by the federal and state governments. For example, in the recently proposed sale of the Arena to Franklin County, Nationwide would have made an annual payment in the amount of \$2 million for naming rights. The proposal was for this payment to go to the Blue Jackets rather than to Franklin County. Presumably the dual intent was to: a) provide cash for the Blue Jackets; and b) minimize the fair market value of the Arena by excluding a significant payment that would have enhanced the value and thus increased the cost of acquisition. As previously noted one limitation of an approach that provides relief in the form of enhanced hockey revenues, rather than reduced expenses and/or non hockey revenue is that payments from the NHL might be reduced under the existing revenue sharing arrangement. Hence, an alternative option would be to redirect the cash payment for naming rights to the public entity that acquires the Arena. That would presumably increase the nominal cost of the sale. However, the increase in the level of debt and debt service would increase the contributions from the federal and state government, and the acquiring public entity would receive additional payments in the form of naming rights to cover the added expense of increased debt service. In addition, under the remaining terms for the proposed sale to a public entity, the selling entity, Nationwide, would have reinvested all of the proceeds from the sale into the Blue Jackets. Under the modified option, Nationwide would receive more for the sale based on the enhanced revenue from naming rights. If the additional funds were also reinvested with the Blue Jackets, the financial benefit of earnings on the additional funds would have been enhanced as well.

To illustrate the magnitude of the combined effects, suppose that the original proposal had been deemed acceptable to all parties in principle for an agreed cost of X dollars for the Arena without naming rights, i.e. assume that the annual payment of \$2 million for naming rights would have been scheduled to go to the Blue Jackets. In such a case, all three parties to the transaction, Franklin County, Nationwide, and the Blue Jackets could have been made better off with two simple adjustments. First, assume that the nominal cost of the transfer, X dollars, remained the same along with all other terms except that naming rights of \$2 million per year, or even a slight smaller amount, could have been paid to Franklin County. Also assume that, in exchange for the payment for naming rights, the County would have agreed to cover annual expenses for the Blue Jackets at level equal to or somewhat less than the amount of the naming rights payment, but substantially higher than the \$1 million the Blue Jackets would have netted following the receipt of \$2 million in naming rights and the loss of \$1 million in NHL revenue sharing.

An additional adjustment to the terms of the sale of the Arena could provide even greater benefits for the parties to the sale. For purposes of the illustration, assume that

the taxable and tax exempt rates of interest for long-terms bonds are respectively 6% and 4%. Also assume that under the alternative terms of sale, Nationwide would have paid \$2 million per year to Franklin County for naming rights, and that in exchange for the enhanced payment Franklin County would have agreed to pay X plus \$40 million rather than simply X as in the original offer. If Franklin County were to issue tax exempt debt to cover the increase in the purchase price, it would incur additional interest expense in the amount of \$1.6 million per year (4% times \$40 million). The difference between the naming rights payment of \$2 million and the additional interest cost of \$1.6 million could be accumulated to pay down the debt and/or could be used for alternative purposes.

As for Nationwide, under the alternative arrangement, it could invest the additional \$40 million from the sale and earn additional interest of \$2.4 million per year (6% times \$40 million). Nationwide could make a direct contribution between \$2 million and \$2.4 million each year to make the Blue Jackets whole. Alternatively, the contract for sale could be modified further to include an additional payment to Franklin County in the amount of up to \$2 million per year to cover annual operating losses on the Arena.

C-9. Build America Bonds

The recent federal stimulus bill created an additional financing option that may be worth exploring. As an alternative to traditional tax exempt debt, the new bill offers a federal rebate of roughly one-third of the interest payments state or local government pay on taxable debt that they issue. This feature is especially appealing for a local government that operates within a state that is also facing a tight budget. To clarify this linkage, note that if a local government were to issue additional tax exempt debt, interest on such debt would generate a lesser amount tax collections for the state than would the issue of Build America Bonds that would generate interest income that is fully taxable at the state level as well as at the federal level. Accordingly, a given state should be more willing to work with a given initiative by a local government if it is financed by Build America Bonds. Subject to this qualification, structures similar to those discussed with respect to the issue of tax exempt bonds apply equally to the use of Build America Bonds.

In principle, the financial advantage of either tax exempt debt finance or taxable debt finance via Build America Bonds could be sufficiently strong to justify a creative approach to the structuring of debt service payments by an issuing government entity. For example, under standard arrangements, if a public entity were issue debt to acquire the Arena, the amount of debt could be increased to raise enough funds to cover the cost of the first three years of interest on the debt. Note that I am not suggesting that there is a free lunch. In general it is not possible to borrow one's way out of financial difficulty. However, to the extent that a third party, in this case the federal government, provides a sufficiently strong contribution for incremental borrowings, it could be advantageous to structure the pattern of debt service and/or to choose a level of borrowing so as to maximize the amount of the external contribution to be earned on the transaction.

C-10. Alternatives to Traditional Debt Finance

In light of current economic conditions and tight public budgets, there might be an advantage to exploring the potential for issuing alternatives to traditional bonds with fixed rates of interest. For example, with an income bond, the amount of interest to be paid during any given period could be indexed to the rate of progress toward projected increases in tax revenues, such as the schedule summarized in Tables 1 and 2. Assuming that suitable investors could be found for this type of bond, the program of economic development could be at least partially self financing and thus would reduce dependence on new forms of taxes or increases in existing tax rates.

If income bonds prove not to be a viable option, an equivalent effect could be obtained by applying the general concept of tax increment financing. The Ohio Department of Development has a formal program for tax increment financing, or TIFs. The following description is taken from the Ohio Department of Development's web site.

Tax Increment Financing (TIF) is an economic development mechanism available to local governments in Ohio to finance public infrastructure improvements and, in certain circumstances, residential rehabilitation. A TIF works by locking in the taxable worth of real property at the value it holds at the time the authorizing legislation was approved. Payments derived from the increased assessed value of any improvement to real property beyond that amount are directed towards a separate fund to finance the construction of public infrastructure defined within the TIF legislation.

As noted earlier in this report, TIFs were effectively employed in the initial development of public infrastructure that was required for the construction of the Arena. The Glenn study has confirmed that property values in the Arena District have benefited well beyond the breadth and extent the TIFs have been employed to date. In addition, projections for additional increases in property values indicate that renewed use of TIFs could be of substantial value to the extent that they contribute to the financial viability of the Blue Jackets in Columbus and thus continue to support sustained economic growth in the Arena District.

Under a more general form of the TIF concept, a portion of tax collections of various types that grow as suggested in Tables 1 and 2 could be allocated to a fund that could in turn be designated to service and/or to retire public debt that is issued as part of the Arena acquisition. Options for structuring the proceeds from potentially overlapping bond issues and/or for indexing coupon payments on bonds that are issued could help in terms of addressing current needs while relying on projected growth in tax revenues as a primary source of funding.

C-11. State Capital Grant

With respect to the required amount of total public financing for a public acquisition of the Arena, it should be noted that the State of Ohio has established formal procedures for awarding grants of up to 15% of the costs of constructing publicly owned professional sports stadiums and arenas. It is not clear if such grants can be used in support of a public acquisition of an existing facility. However, given the magnitude of continuing economic benefit that the Blue Jackets, the Arena and the Arena District provide for the State of Ohio, it would appear that this question is worth formal exploration with the Ohio Cultural Facilities Commission. Moreover, in support of such discussions, it should be noted that the State of Ohio is the beneficiary for roughly one half of the estimated \$30 million in incremental annual tax revenues that are attributed to the Blue Jackets, the Arena, and the Arena District. The State of Ohio is also the future beneficiary for roughly one half of the projected doubling of tax revenues over the next ten years. However, as noted previously, such projections presume that a solution can be found for sustaining the viability and presence of the Blue Jacket in the Arena District. Although modification of existing statute may be required, the general purpose of the request would appear to be consistent with the objectives of those statutes.

Existing economic conditions may limit the capacity and flexibility for funding via entities such as the Ohio Cultural Facilities Commission. Nevertheless, it may be possible to coordinate such funding by means of creative methods. For example, if existing funding through the Commission is limited, one effective alternative would be for the State to designate a specified percentage, or a specified dollar amount, of the projected increase in State tax revenues and then allocate such funds for the purpose of retiring a given percentage of any public debt that would be issued for the purpose of acquiring the Arena. If the percentage for debt retirement were set at a level of 15%, the net effect would be comparable to an initial grant of 15% of the acquisition cost, but the State would not have to provide any funds at the initial stage of the project.

C-12. Private Placement of Public Bonds

Given the variety in terms of potential financing options, it is possible that a particular restructuring that is deemed to be most attractive in terms of external contribution might require a relatively complex structure of debt issuance and/or debt service. In such a case, it might be worthwhile to directly approach one or more potential investors regarding the possibility of a private placement of a bond issue, or even a series of bond issues with the desired structural properties.

VI. Conclusion

In light of the magnitude of the financial problem faced by the Blue Jackets, the magnitude of the financial stakes for a variety of public entities, and the number and complexity of options that might be considered as part of a coordinated solution, it might be appropriate for various interested parties to join in a effort to explore a common solution to a problem that is both important and wide reaching.