PUBLIC FINANCE

Could Dan Snyder End Publicly Financed Stadiums?

The D.C. market is especially ripe for PSLs, making public stadium funding unnecessary.

BY IKE BRANNON

Back around the turn of the century I was a newly minted economics professor living in Oshkosh, Wisc., a picturesque city 40 miles southwest of Green Bay and deep in the heart of Packerland. I was also (and remain to this day) a Chicago Bears fan, a fact that made the autumns there a bit uncomfortable. While the Pack reached two Super Bowls and made the playoffs every year I lived in Wisconsin, the Bears made the playoffs precisely once and lost to the Packers 13 of the 14 times they faced each other. A surfeit of Cheesehead friends and neighbors made sure I was aware of the imbalance.

One day, however, life in Packer country threatened more than my psyche: the team's management wanted a renovated stadium and didn't want to pay for it. Instead, they asked the local governments to impose a 1 percent sales tax to finance the project, and the counties affected were to include the one where I lived.

The government decided to hold a referendum on the matter, and it was clear that it would pass. The team's excellent string of seasons meant that public support across the area for the team was high. But management wasn't taking any chances; it engaged its lengthy list of former stars to help with the marketing campaign and hired a slick public relations firm to orchestrate things. There was no coordinated opposition.

To lessen the sting to taxpayers, the Packers offered to contribute to the renovations. Specifically, they offered to charge season ticket holders a one-time fee of $2,000 to maintain the ownership of each season ticket, in effect creating what is known as a personal seat license (PSL). Making those who actually use the stadium pay for its renovation seemed to me to be more sensible than taxing the schlubs who never set foot inside Lambeau Field, yet the PSL fee created more consternation among fans and the media than the sales tax. This outcry came despite the fact that a season ticket was a valuable commodity: at the time, reselling a season ticket to all 10 games would net the owner around $1,000 a year.

It didn't take much economic rigor to deduce that a PSL was worth more than what the team wanted to charge for it. To make a guess as to how much more, I took the $1,000 net profit (a number I obtained from interviews with a number of ticket brokers), assumed a conservative 10 percent rate of return that an investor might insist upon to purchase such an income stream, and then multiplied it by the 70,000 seats in Lambeau Field. I arrived at a conservative estimate that the team could clear roughly $700 million if it let the market set prices for the PSL. Put another way, that was more than enough to finance the renovations.

A colleague and I worked up a proposal on how such a pricing scheme might be done, partnered with a sports marketing firm, and made a brief presentation to a low-level Packers executive about our idea. *Not interested*, he said, and we were quickly shown the door. Undeterred, I wrote an op-ed about my idea for the Green Bay newspaper—and shortly thereafter copies of my photo, along with the column, were placed in the urinals in several bars near the stadium. The referendum passed and the local sales tax increased by 1 percent, with the revenue dedicated to the stadium.

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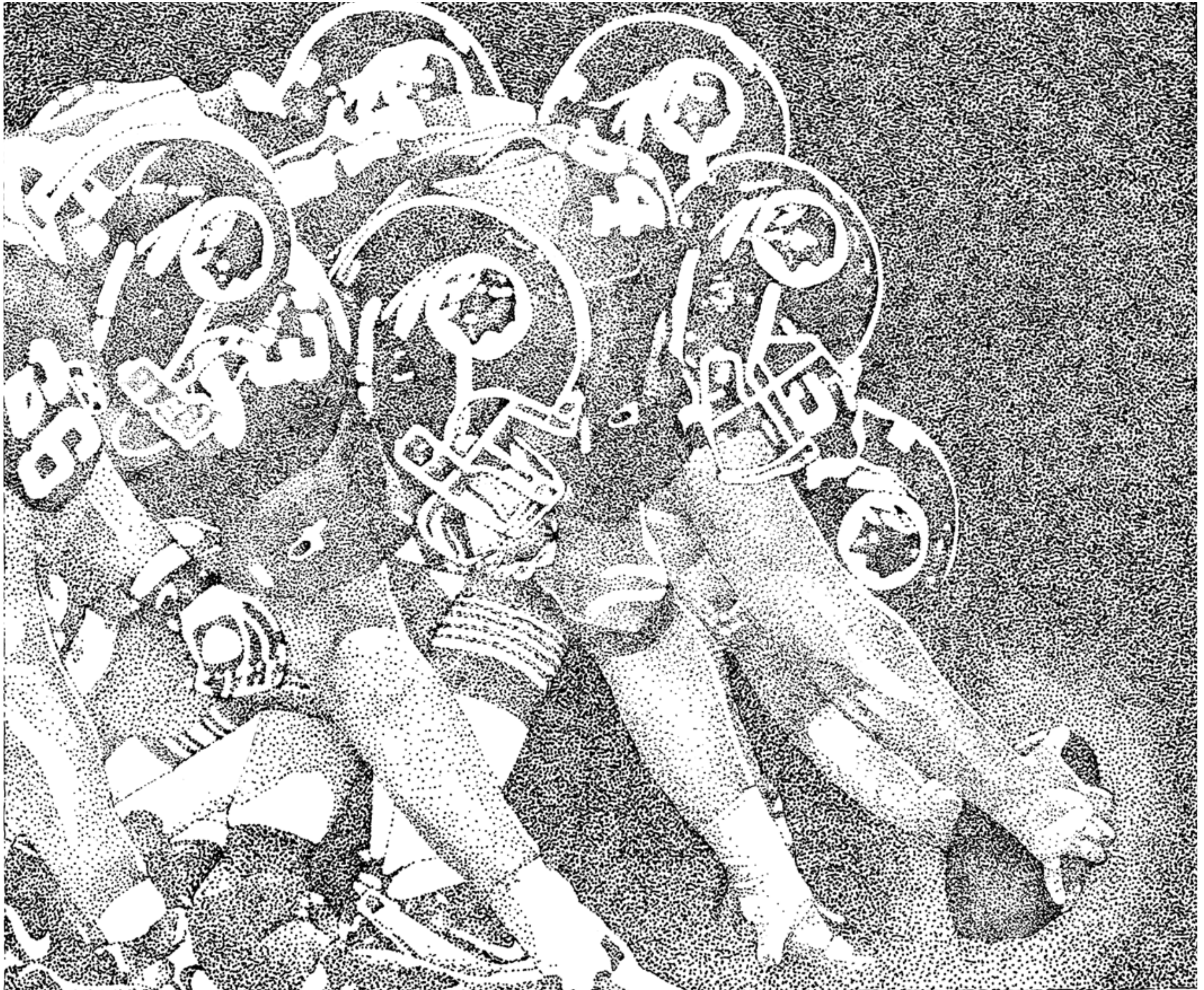

A couple years later my Chicago Bears had an uncharacteristically good season, which they too exploited to get the government to pay for renovations to their stadium. Again, my friend and I procured an appointment with a team executive to explain how PSLs could generate more than enough money to cover the cost of remodeling the stadium. Again, we were told that it was much more convenient to get money from the state rather than aggravate the season ticket base by getting more money from them. The Illinois General Assembly duly complied and Soldier Field was turned into the comfortable eyesore it is today.

In the intervening decade, this pattern has repeated itself: teams that want a new or remodeled stadium turn to the government first and offer to cover some modest portion of the total bill by charging season ticket holders a relative pittance to hold onto their seats. Despite the occasional pushback from a legislature or city council, it has been a successful formula.

What would it take to change the environment so that government money was no longer available for a National Football League stadium? It would take a team desiring a new stadium in a large market with a rabid fan base. The team would have to possess an advantage over other cities regarding the marketability of a PSL. And the team's owner would have to be willing to upset fans, other team owners, and the league in his pursuit of greater wealth.

Ladies and gentlemen, meet Daniel Snyder, majority owner of the Washington Redskins and the man who just might make a billion dollars from selling PSLs—while concomitantly blowing up any rationale for the future public financing of sports stadiums.

The Desire for a Bigger, Shinier Stadium

The Redskins currently play their games in Fedex Field, a functional yet unspectacular stadium less than two decades old located in the hinterlands of the Washington, D.C. region. While it has the requisite skyboxes and among the highest seating capacities in the league, it lacks some of the accoutrements of newer stadiums, is difficult to reach by car or public transportation, and—perhaps most importantly for its owner—pales in comparison to the new Cowboys Stadium, the opulent

ILLUSTRATION BY MORGAN BALLARD

billion-dollar behemoth built by Jerry Jones, the owner of the Dallas Cowboys, arch-rival to the Redskins.

Fedex Field cost $250 million to build, much of which the previous team owner, Jack Kent Cooke, paid himself, with the State of Maryland contributing $70 million. Snyder owns the stadium, having purchased it from Cooke's estate along with the Redskins in the late 1990s. Despite its relative newness, FedEx Field is now one of the 10 oldest stadiums in the league.

While FedEx field has no obvious defects, a new stadium done right would offer ample opportunities for the team to increase its revenue even beyond the potential pot of gold that PSLs could generate. There would be ancillary football revenue as well as greater non-football revenue from concerts and other events—not a minor consideration for a facility used by its primary tenant only 10 or so times a year. Recently the NFL has rewarded new stadiums with the right to host a Super Bowl while threatening to withhold future opportunities to host the league's signature event from cities with older stadiums in communities that refuse to spend public money to renovate their stadium.

If the Redskins were to build a new stadium, locating it in the District makes a lot of sense. There would be considerable support for building it on or near the site of the team's previous home, legendary Robert F. Kennedy Stadium. RFK is still standing, an aging behemoth that nevertheless has the requisite parking and proximity to mass transit, the highway system, and an airport, as well as the virtue of being in a central location for the region. It also possesses picturesque sight lines of the Capitol and Washington Monument that make for excellent TV shots. Its only current tenant, the Major League Soccer team D.C. United, may soon be moving to a new stadium.

In 2012 the D.C. City Council broached the subject of helping the Redskins move its practice facilities into the District. The gambit eventually failed after a proposal to use public funds to facilitate the move was met with vitriol from the overabundance of community activists who live in the District. The team ultimately decided to renovate its practice facility in Ashburn, Va. (using money from the Commonwealth of Virginia) and relocate its training camp to Richmond, Va. (financed by the local economic development authority), but the D.C. government's efforts helped to renew a discussion about the team returning to the District. However, the fight over the practice facilities made it clear that if Snyder wants to return to the city, he'll likely have to do it on his own dime. It's hard to see the current ethics-challenged council and mayor getting away with spending a few hundred million dollars of taxpayers' money to finance a stadium for the unpopular Snyder without torch-bearing mobs forming.

The Benefits of All-Private Funding

Despite the apparent lack of governing financing, a new stadium in D.C. is far from dead. In fact, eschewing government funds can pay off for Snyder in spades if he fully embraces all of the possibilities of PSLs. Were he to let the markets set the price for PSLs, he could generate far more money than is needed to build the stadium. Most importantly, he has a fundamental advantage over the rest of the league because the presence of the U.S. Congress makes the value of a PSL higher in D.C. than anywhere else.

Evading revenue sharing | Some commentators like to jokingly describe the NFL as being akin to a communist organization because of its practice of sharing revenues equally among the 32 teams. While it is true that two major revenue sources for the league—the television rights fee and gate receipts—are shared, there are ancillary sources of revenue that the teams keep to themselves, such as stadium concessions, the rental of skyboxes, local radio and television fees, and—most importantly—the revenues created from the sale of PSLs.

The Green Bay Packers football club, which is the only publicly held team in the league and thus the only team forced to disclose its financial performance, reported roughly $300 million in revenue in 2011, 55 percent of which came from the network television contracts and other shared revenue.

Economists often ponder why NFL tickets are seemingly underpriced by teams, with the going price for a game on Stubhub or another ticket reseller often being two or three times higher than the price for which a team sold the ticket. One answer commonly given is that lower ticket prices allow people to spend more money once they get into the stadium—and unlike gate receipts, money spent on food or t-shirts isn't split with the opposing team.

But another reason for setting ticket prices well below the going rate is that teams with PSLs have an implicit agreement with their season ticket holders to keep prices down. For instance, if the Packers began pricing their tickets so that season ticket holders who bought PSLs could not make any profit by flipping their tickets, then they might feel that the team fleeced them and engender ill will.

There is an inherent tradeoff between the price of a ticket and the PSLs: the lower the face value of a ticket, the more people will pay for the PSL. Since an NFL team must pay 40 percent of its gate to the opposing team, it behooves it to try to get as much of the revenue via PSLs rather than tickets. The lower the ticket price, the higher the potential profit from owning season tickets, and therefore the higher potential PSL price.

What's stopping a team from going to the logical extreme and charging only a token amount for the ticket and capturing all the revenue in the sale of the PSL? Only two things: a fear of a backlash from the league office and the fact that a team has yet to introduce a PSL robust enough to fully capture those revenues.

It is not apparent that the league would stop a team from lowering its ticket prices in order to push more revenue into the (untaxed) PSL. The national television contract is far and away the main revenue source for the league, and gate receipts represent a relative pittance. A former lawyer for the league told me he doubted that the league would push back on a team that drastically lowered its ticket prices to boost PSL prices.

Snyder is just the owner to push the envelope on pricing PSLs.

For one thing, he's previously shown his willingness to go against league wishes—witness his ultimately unsuccessful attempt to push player payroll from the years with a salary cap into the one year when the salary cap expired, violating an edict from the commissioner not to do so and ultimately costing the team a heavy cap-space penalty. Beyond that, he has more to gain from such machinations, thanks to congressional ethics reform legislation in 2007.

Evading congressional ethics law | Prior to the 2007 ethics reform, lobbyists could take to lunch members of Congress and their staffers or give them nominal gifts—such as tickets to sporting events—as long as the value of the meal or gift was less than $50. Naturally, the D.C. sports environment accommodated those rules—in the Verizon Center, home of the Wizards and Capitals, skyboxes rent for as much as $20,000 a game, yet the "ticket" that had to be purchased to enter the skybox was perpetually set at $49.50, allowing a corporation to cover it for the congressmen without violating ethics rules.

After the reform, congressmen and staffers could not accept a meal or even *de minimus* gifts from a lobbyist or anyone from a company that employed lobbyists. That would seem to exclude inviting senators to sit with you in box seats—*unless* the valued guest "pays" the face value for a ticket that is worth much, much more. D.C. sports teams could make those tickets available while still profiting handsomely by having *the right to buy the ticket*, manifested in the PSL, capture nearly all of the true value of attending a game. Thus, in Washington, D.C. there would be no shortage of companies willing to pay thousands of dollars a year for the right to buy game tickets for $25 each, a price at which it is easy for them to invite their favorite congressmen or committee staffers along and expect them to pay the face value of the ticket.

It is a model that Snyder could extend to other events as well. For instance, he could easily arrange an annual summer package of eight concerts and sell PSLs to that series as well, creating another set of events that would be easy for lobbyists to invite congressmen along—or sell them the tickets to their skybox for an event, which the lawmakers could turn around and use for a fundraiser.

The situation is unique to Washington, D.C. and suggests that the Redskins would make far more from auctioning PSLs than any other team in the league.

Price discrimination | The practice of charging a fee for the right to purchase a ticket has existed long before the advent of PSLs. Such a structure is a common way to "price discriminate"—charge people different prices for what is essentially the same product, based on how much they're each willing to spend for the product.

The congressional ethics law is unique to Washington, D.C., and suggests that the Redskins would make far more money from auctioning PSLs than any other team in the National Football League.

Universities are perhaps the best price discriminators there are, as they post an exorbitant list price and offer discounts based on a customer's ability to pay—which they will decide only upon seeing the last few years of tax returns. NFL teams can't expect people to provide copies of their 1040s before buying a ticket—at least not yet—but there are other price discrimination tools ripe for exploiting.

Charging an upfront fee and then a price to actually buy the good or service being sold is what economists call a two-part pricing scheme, and it represents an indirect way to get people to reveal their willingness to pay for some good or service. Sometimes the upfront fee is small, such as the membership fee for Costco or Sam's Club. In other markets the upfront fee can be significant, as with health clubs and country clubs, which charge nominal fees (or sometimes none at all) for exercise classes or court and tee times. Snyder formerly owned controlling interest in the Six Flags amusement park chain, which is an excellent two-part price-discriminator, so it is a technique with which he should have some familiarity.

How to Properly Create and Sell PSLs

Teams that have sold PSLs thus far generally haven't done a great job at maximizing value. The lack of certainty, the limited price points, and the illiquidity of most PSLs depress people's willingness to plunk down thousands of dollars for such an investment.

The other problem with sales thus far is that the team usually sets prices on its own, with relatively little market feedback save for a marketing study. As a result the prices for PSLs in the NFL have ranged from well above the market price to well below the market price.

The first thing any team wishing to maximize the value of PSLs needs to do is make clear that the buyer of a PSL has full property rights over his investment. That means the owners should have the ability to sell it if they wish to and that the team has no ability to rescind anyone's PSL without paying the market price—and not the initial price—for the license.

A major problem with most current PSLs is that there is an implicit assumption that they will last in perpetuity. Allowing this perception to continue makes selling a new round of PSLs—and building a new stadium—more difficult. When the Packers sold their inexpensive PSLs in 2001, there was no small

degree of indignation from long-time season ticket holders who professed the belief that they already owned the right to the season tickets for their seats by dint of possessing them for so long, and that the team had no right to make them pay money for that right.

While it may be the case that the team benefits from the implicit assumption that the PSLs are durable, the uncertainty also makes it a less attractive investment. A better strategy would be to dispense with the uncertainty and create PSLs with a finite duration. The increase in certainty—and the imposition of an expiration date on the PSL—would mean that teams would have a chance to extract money from fans regularly via the sale of PSLs. If a team were to sell both five-year and 10-year PSLs and stagger sales so that every off-season a significant portion of PSLs went on the market, it would guarantee that it could take advantage of any season that results in an uptick in demand. By having an annual sale of expired PSLs, it would be easy for a team to create a robust secondary market for PSLs, increasing their liquidity and, ultimately, their value.

One complaint that invariably comes with PSLs is that they can require a significant capital investment, shutting out less affluent fans. While it may be tough for a taxpayer to feel much sympathy for a fan being forced to pay full freight for his tickets, there are ways for teams to structure their PSLs so that the middle class can get into the stadium. Besides offering PSLs of shorter duration, a team can sell PSLs that don't cover the entire season. The Packers already do this with both six-game and four-game PSLs, but there's no reason a team couldn't offer three-, two-, or even one-game PSLs for people who can't afford or have no interest in attending every game but would like the ability to attend a game in person at least once or twice a year. The more pricing points a team can create, the more money PSLs will generate.

A team can also provide financing for fans who need a loan to purchase their PSLs, giving teams yet another way to make money. It would be a relatively riskless loan, since the team could merely repossess and sell the PSL in the event of default.

Finally, a team needs to think about *how* to sell PSLs. It is clear how this should be done: if the team truly wants to maximize the money that PSLs generate, it needs to conduct an auction. Doing so takes away the guesswork in pricing seats and allows the fans to drive prices to what the market will bear. Besides taking away the inherent difficulty in determining a going market price, it also absolves the team from accusations of price gouging by allowing the price to be set by the market.

Auctioning tens of thousands of close-but-not-quite-identical assets at one time presents some problems, but such auctions are not uncommon in other realms. For example, the wireless bandwidth auctions are similarly complex, but the Federal Communications Commission has made the exercise tractable for all participants and remunerative for the government as well.

Creating a PSL that conveys a tangible property right, has a finite life, can be bought and sold in a transparent, liquid market, and is sold via an auction could generate hundreds of millions of dollars on a regular basis for the team owner.

The point of this auction tutorial is to illustrate the fact that while teams have been using PSLs for decades to raise revenue, their efforts thus far have been timid, clumsy, and far from efficient. Creating a PSL that conveys a tangible property right, has a finite life, can be bought and sold in a transparent, liquid market, and is sold via an auction could generate hundreds of millions of dollars on a regular basis for the team owner, thus giving lie to any notion that cities need to finance football stadiums in order for their team to be competitive.

The Uncertain Future of the NFL Begs for PSLs

Suppose for a moment that the current lawsuit against the NFL by hundreds of former players suffering from lingering head injuries has the chance to become more than just another cost of doing business. Suppose it actually represents an existential threat to the league, as George Mason University economist and polymath Tyler Cowen has suggested.

If there is even a remote chance that the owners of billion-dollar franchises could see their assets evaporate in the next decade, then it behooves them to think of a way to capitalize on their assets today. Selling PSLs for what the market will bear is the most expedient way to push forward future contingent revenue streams that might evaporate.

The Washington Redskins are a team that is perfectly positioned to exploit PSLs. While team owners desire a new stadium in the District of Columbia, they cannot expect to receive government funds. However, the rabid fandom in the region and the unique characteristics of the local market suggest that the team would be singularly successful in using PSLs to generate revenue for the team.

If Snyder got creative by offering PSLs for a variety of price points while making them real assets that could be bought and sold easily, and lowered the price of the actual game tickets to a nominal amount, he could easily raise the billion dollars or so he'd need to finance a new stadium, along with another few hundred million for his pocket. And the auctions could keep occurring regularly in the future because the PSLs could be finite-lived, making them a gift that keeps on giving. Dan Snyder and the Redskins could be the harbingers for a new era in sports revenue financing—one that excludes government revenue. R