ROCKFLEET financial services

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MUNI MARKET UPDATE

November 8, 2010

INSIDE THIS ISSUE:

SPORTS FACILITY FINANCING: AN OVERVIEW

Larry Levitz

There has been a boom in stadium and arena construction in the U.S. over the past two decades. Between 1989 and 2009, 103 of the 118 sports venues utilized by teams across five professional sport leagues (Major League Baseball, National Football League, National Basketball Association, National Hockey League, and Major League Soccer), were either newly built or had undergone major renovations. The total estimated construction costs for these facilities approached $27 billion. And these numbers do not include the recently opened stadiums such as the $1.6 billion New Meadowlands Stadium hosting the NFL Giants and Jets or the Minnesota Twin's $400 million Target Field, both of which opened this year.

Public investment in sports facilities has been considerable as cities have vied with one another for teams. While sports facility financings typically involve some combi-

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MARKET UPDATE

The Federal Reserve, in a dramatic effort to rev up a "disappointingly slow" economic recovery, said in the release of FOMC minutes last week that it will buy $600 billion of U.S. Government bonds over the next eight months to drive down interest rates and encourage more borrowing and growth. Ben Bernanke is confronted by an economy hobbled by high unemployment, a gridlocked political system and the threat of a Japan-like period of deflation.

Market participants hoping Congress will extend the Build America Bond ("BAB") program and other expiring municipal provisions before the end of the year cannot count on incoming House Ways and Means Committee Chairman Representative David Camp for support. BAB and other municipal provisions enacted by the American Recovery and Reinvestment Act are scheduled to expire at the end of the year, and efforts to extend them have stalled in Congress.

Defaults by some Florida community development districts ("CDDs")that sold "dirt bonds" to finance infrastructure improvements for residential and commercial real estate projects continued Monday as debt service payments came due. In just two days after they were due, 23 districts reported problems with their payments, including 13 defaulting and 8 drawing on reserves, Matt Fabian, managing director and senior analyst for Municipal Market Advisors, was quoted in The Bond Buyer. Read our March 13 article, "Diamonds in the Rough," for more information on CDDs.

Total municipal issuance in October reached $42.5 billion, of which a monthly record $13.3 billion were Build America Bonds.

Secondary market flows remained subdued as primary market issuance continues to provide price "guidance" for the retail and institutional investor base. ♣

THIS WEEK'S CALENDAR

E.D.T.	Amount	Ratings	Issuer	State	Structure
Monday, November 8					
11:15AM	6,385M	NR/A+	Gettysburg Muni Auth	PA	2011-2029 BQ
11:15AM	10,155M	NR/A+	Perkiomen Valley Sch Dist	PA	2012-2021 BQ
11:30AM	15,035M	Aa2/NR	Spring Twp	PA	2012-2039 BQ
Tuesday,November 9					
10:30AM	102,870M	UR/UR	Virginia PBA Series B3	VA	2012-2024
11:00AM	94,115M	UR/UR	Virginia PBA Series B1	VA	2011-2018
11:00AM	22,980M	NR/AA-	Matawan-Aberdeen RSD BOE	NJ	2011-2027 BQ
11:00AM	8,000M	NR/AA+	Dedham	MA	2011-2030 BQ
11:00AM	1,800M	NR/AAA	Sudbury Wtr Dist	MA	2011-2020 BQ
11:00AM	23,380M	NR/A	Olean School District	NY	2012-2026 BQ
11:00AM	18,000M	Aa2/AA-	Univ of Alabama Series B RZED	AL	2038-2040
11:00AM	100,420M	Aa2AA-	Univ of Alabama Series C (T/E or BABs)	AL	2019-2038
11:00AM	31,040M	Aa2/AA-	Univ of Alabama Series D TAXABLE	AL	2011-2019
11:00AM	60,000M	Aa1/AA	Richland Co Sch Dist #2	SC	2011-2028
11:00AM	18,105M	UR/UR	Ocean City (T/E or BABs)	MD	2011-2030
11:15AM	3,465M	UR/UR	United School District	PA	2011-2023 BQ
11:30AM	193,960M	UR/UR	Virginia PBA (T/E or BABs) Series B2	VA	2019-2030
Wednesday, November 10					
10:00AM	25,685M	Aa2/AA	Collier Co	FL	2011-2021
10:30AM	19,375M	UR/UR	Maryland Dept Trans - COP	MD	2011-2025
10:30AM	21,175M	Aaa/AAA	Lower Merion RFDG	PA	2011-2028
11:00AM	12,585M	UR/UR	Maryland Dept Trans - COP	MD	2011-2025
11:00AM	5,818M	UR/UR	Masphee	MA	2012-2029 BQ
11:00AM	60,120M	Aa1/AA	Horry Co Sch Dist	SC	2011-2022

Click here for calendar updates.

VISIBLE SUPPLY

30-Day Visible Supply

Negotiated: $12.170B

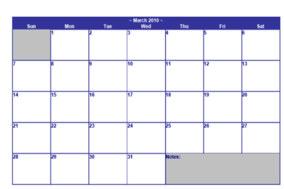
Competitive: $3.825B

Total: $15.996B

The 30-day visible supply is calculated by The Bond Buyer and reflects the total dollar volume of bonds to be offered at competitive bidding and through negotiation over the next 30 days.

Source: Thomson Reuters.

ECONOMIC CALENDAR



BOND INSURER RATINGS

Bond Insurer	Moody's	S&P
ACA Financial Guaranty Corp.	Rating Withdrawn	Rating Withdrawn
AGMC (FSA)	Aa3 Negative	AAA Negative
Ambac Assurance Corp.	Caa2 Positive	R
Assured Guaranty Corp.	Aa3 Negative	AA+ Stable
Berkshire Hathaway Assurance Corp.	Aa1 Stable	AA+ Stable
CIFG Assurance North America Inc.	Rating Withdrawn	Rating Withdrawn
Financial Guaranty Insurance Co.	Rating Withdrawn	Rating Withdrawn
MBIA Insurance Corp.	B3 Negative	BB+ Negative
National Public Finance Guarantee Corp. (MBIA- IL)	Baa1 Developing	A Developing
Radian Asset Assurance Inc.	Ba1 Stable	BB- Negative
Syncora Guarantee Inc. (XLCA)	Ca Developing	R

MUTUAL FUNDS AND MONEY MARKETS

Long-Term Mutual Fund Flows

Total estimated inflows to long-term mutual funds were $3.32 billion for the week ended Wednesday, October 27, the Investment Company Institute reported.

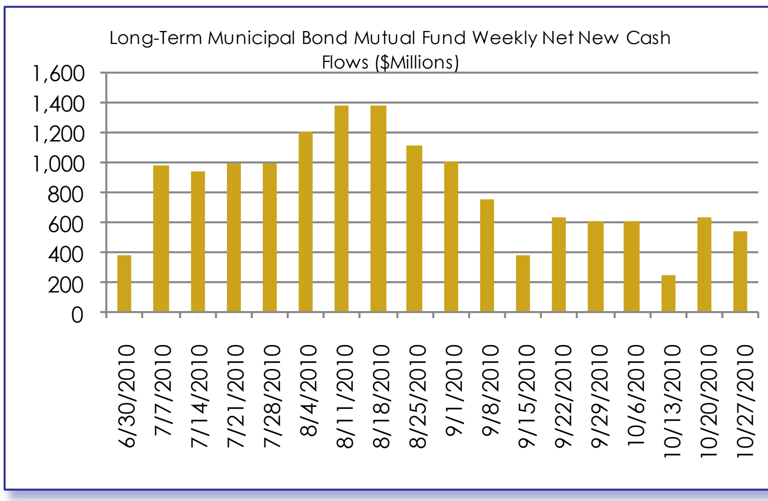
Municipal bond funds had estimated inflows of $545 million.

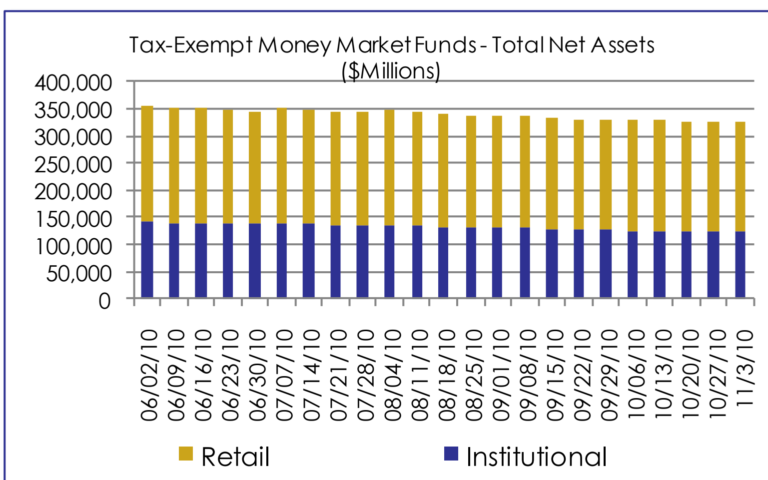
Money Market Mutual Fund Assets

Total money market mutual fund assets decreased by $6.59 billion to $2.800 trillion for the week ended Wednesday, November 3, the Investment Company Institute reported.

Tax-exempt funds increased by $930 million. Assets of retail money tax-exempt market funds increased by $640 million to $202.04 billion. Institutional tax-exempt fund assets increased by $300 million to $124.03 billion.♣

Source: Investment Company Institute.





SPORTS FACILITY FINANCING (CONT'D)

nation of public and private investment, state and local governments over the past six or seven decades have provided crucial financial and logistical support for these projects.

Public investment can take many forms, such as infrastructure improvements in and around the facility, tax abatements, zoning changes, condemnation, and funding for actual facility construction. This funding is often provided through the issuance of bonds.

Private investment includes owner contributions, team rent, and the allocation of a variety of revenue streams derived from the operation of the stadium. The expansion and refinement of these latter revenues such as personal seat licenses, luxury suite revenues, and naming rights have been an important driver of the stadium building frenzy of the last twenty years.

This article will offer a brief overview of the history of sports facility financing as well as a discussion of the types of bonds utilized to fund these projects. It will focus on a few representative financings while noting critical factors that bondholders should take into account before purchasing specific types of sports facility bonds.

Historical Roots

In the first half of the 20th century, team owners financed most stadiums on their own. Wrigley Field, the original Yankee Stadium, and Fenway Park are examples of this early trend. Stadium design was less complicated and construction costs much lower on a relative basis to the stadiums of today. Prior to 1948, only four of 28 major league stadiums were built with any public funds.

Governments became much more involved in stadium funding during the late 1950s and the 1960s. As the popularity of sports increased and urban populations expanded around the country, cities began to compete with one another for sports franchises.

Teams acquired greater leverage over public officials who wanted to keep the teams they had or lure a new franchise to the area. Whether it was for civic pride, economic benefit, construction jobs or some combination of these factors, the public was more often than not receptive to the use of government funds to build new stadiums during the late 1960s and the 1970s. Many of the new stadiums were functional, multipurpose facilities that were designed to accommodate both baseball and football.

During this period, government bonds for new stadiums were issued as industrial development bonds ("IDBs"), a special category of bonds whose proceeds were used for private purposes such as industrial parks, factories and stadiums; however, the interest on the bonds was tax-exempt, i.e., free from federal government taxation.

Tax-exemption provided a substantial government subsidy to stadium projects by lowering the cost of financing. IDBs could be repaid either from government funds (often the bonds were general obligation bonds of the issuer), or from private sources such as team revenues. By 1984, Congress had become increasingly concerned about the widespread use of tax-exempt IDBs and enacted laws to curb their use.

The 1986 Tax Reform Act was a continuation of the federal government's efforts to limit the use of tax-exempt bonds for private activities. By removing sports facility financing from the list of projects which qualify for tax-

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UPCOMING EVENTS

The Bond Buyer's 11th Annual Transportation Finance / P3 Conference
November 7 – 9, 2010
Miami, FL

SIFMA 2010 Annual Meeting
November 8, 2010
New York, NY

Standard & Poor's 2010 Project & Infrastructure Finance Hot Topics Seminar
November 9, 2010
New York, NY

Southern Municipal Finance Society (SMFS) Gulf Coast Credit and Challenges
November 9 – 10, 2010
New Orleans, LA

NYU Stern Principles of Credit Analysis
November 10 – 12, 2010
New York, NY

Is Regulation in Your Future? Structural Options for Private Wealth Management
November 10 – 11, 2010
Chicago, IL

New York Area Workshop on Monetary Policy
November 12, 2010
New York, NY

High Speed Rail 2010
November 14 – 16, 2010
New York, NY

More events...

SPORTS FACILITY FINANCING (CONT'D)

exemption, the Tax Reform Act restricted private financial participation in these ventures. However, the Act did not eliminate tax-exempt government financing for sports venues. Under the new regulations, tax-exempt bonds could still be issued for sports facilities but only if governmental revenues funded over 90% of debt service on the bonds.

The practical result of the Tax Reform Act was to increase public financing of sports facilities, as private contributions were restricted to less than 10% of debt service costs. In 1996, Senator Patrick Moynihan of New York introduced legislation that would have banned the use of federally tax-exempt bonds for any sports enterprise. However, the legislation had little support and it eventually died.

The 1990s experienced a new wave of stadium building. Stadium design moved from cookie-cutter, multi-sport stadiums mostly located in suburban settings to distinctive, urban venues such as the one pioneered Baltimore — Camden Yards. Furthermore, sports facilities were being transformed into entertainment centers with restaurants, shopping and other attractions.

As a consequence, construction costs soared. Plain vanilla financings gave way to more complex structures. It was during this period that use of specialized revenue streams derived from stadium operations were developed as a way of generating additional income.

During the mid-1980s, Joe Robbie, owner of the Miami Dolphins, was unable to obtain public financing from the City of Miami for a badly needed new stadium for his team. As a result, he implemented a then-novel idea to finance a new facility on his own by pledging future revenues from skyboxes and club seats as collateral for his construction loan.

Team owners quickly embraced these rich new sources of income. They declared their present venues obsolete and lobbied for new stadiums to incorporate large numbers of luxury suites, premium seats, and more extensive concession space. The main purpose of the redesign was to maximize the income which could be derived from these facilities. Revenues from personal seat licenses, club seats, and luxury suite rentals provided much of the private support for stadium construction.

Most sports financings combine both public and private funding sources. The extent of public funding often depends upon such factors as the popularity of the team, taxpayer support for a new stadium, and the team's ability to leverage the potential of its playing somewhere else.

Baltimore and the State of Maryland, which had seen its Baltimore Colts depart for Indianapolis several years before, provided almost exclusive funding for the Orioles' Camden Yards Stadium. Bonds were issued through the Maryland Sports Authority secured by proceeds from a special state sports lottery with a state appropriation back-up.

Other cities as well, confronted with the possible departure of their team, contributed substantial funds to construct new stadiums and arenas. In the middle and late 1990s, the owners of the NFL Cincinnati Bengals threatened to leave Cincinnati unless a new stadium was built for them. City and County officials proposed a ½ cent county-wide increase in their sales tax to pay for the new ballpark. The referendum passed and $675 million of sales tax-secured bonds financed the entire stadium, which opened in 2000.

In recent years, there has been growing opposition to taxpayer funding of stadiums and arenas. As government finances deteriorate under the weight of the recent recession, the public is less inclined to contribute to many of these enterprises.

Sports facility financings continue to evolve as demonstrated by the creative use of payment in lieu of taxes ("PILOT") payments used to achieve tax-exempt status on bonds for new stadiums such as the new Yankee Stadium, Citi Field (Mets), as well as the new arena in Brooklyn under construction for the New Jersey Nets. All of these newer facilities, including the Dallas Cowboys stadium and the New Meadowlands Stadium, have substantial private backing.

Public Bonds for Sports Facilities

The types of municipal bonds issued to support sports facilities cover the range of general government bonds. The major ones are general obligation bonds, lease revenue bonds and tax revenue bonds, which are individually discussed below.

General obligation bonds (GO)
GO bonds are secured by the full faith and credit and taxing power of the local issuer. Governments frequently used general obligation

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SPORTS FACILITY FINANCING (CONT'D)

bonds to finance stadium building in the 1960s and 1970s, when construction costs were relatively modest and the public was generally more supportive of government involvement.

GO bonds usually entail the lowest borrowing costs because of their unlimited tax pledge; however, their advantage is offset by state and local government statutes which require voter approval as a condition for their issuance. GO bonds were used to fund the construction costs of facilities for former stadiums such as Shea Stadium in New York, McNichols Arena, the former home of the Denver Nuggets, as well as Tropicana Field, the current park of the Tampa Bay Rays.

Because the issuer is pledging its GO credit, bond payment is insulated from the fortunes of the facility or the team. The risk of the stadium enterprise is transferred to the issuer rather than bondholders. Investors look solely to the issuer's general credit quality to evaluate the risk of the issue. As many voters today are much more skeptical of taxpayer dollars supporting sports facility construction, few issuers are willing to go through the time and uncertainty of a referendum in order to issue GO bonds when other options are available.

Lease-revenue bonds

Lease-revenue bonds, which include certificates of participation ("COPs"), are secured by payments made by the sponsor government (obligor) according to a lease or contract. These payments are used to retire the bonds. The lease payments are subject to appropriation in that they must be authorized (appropriated) each year by the obligor's legislative body (city council, county board of commissioners, etc.) before they can be paid. The lease terms give the obligor the legal right to walk away from the lease and leave the bonds unpaid. When an obligor fails to appropriate, bond holders are left with little recourse.

Because the appropriation and payment cycle is on a year to year basis (except in multi-year budgets) lease revenue bonds are not technically considered long-term debt and as such, do not require voter approval. State and local governments frequently utilize appropriation debt as an expeditious way to issue the bonds while maintaining their GO debt issuing capacity.

> ***"...lease revenue bonds are not technically considered long-term debt, and as such, do not require voter approval."***

Bond rating agencies and other municipal market participants have made it clear that appropriation-backed bonds are judged to be a long-term obligation of the obligor. Failing to appropriate on an obligor's lease obligations would be considered the same as defaulting on its GO debt. Such an event would result in severe damage to the obligor's credit, triggering painful ratings downgrades and restricting the obligor's future access to the capital markets or at the least, raising their borrowing costs. Because an act of non-appropriation carries such harsh repercussions from the market, non-appropriation events among credit-worthy issuers are extremely rare.

Dedicated revenues, such as sales taxes or hotel taxes, are often used as sources of funds for appropriation obligations. A lease-revenue structure typically affords governments more flexibility in managing revenues to pay debt service.

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UPCOMING EVENTS

Government Finance Officers Association of Texas Fall Conference
November 17 – 19, 2010
Galveston, TX

Municipal Advisory Council of Texas Training Day
November 18, 2010
Austin, TX

National Federation of Municipal Analysts Introduction to Municipal Bond Credit Analysis 2010
November 18 – 29, 2010
Philadelphia, PA

Smith's Research & Gradings Healthcare Finance Conference
November 18 – 19, 2010
Boston, MA

Midwest High Speed Rail Association: 2010 Fall Conference
November 20, 2010
Chicago, IL

National League of Cities: 2010 Congress and Exposition
November 30 – December 4, 2010
Denver, CO

U.S. Securities and Exchange Commission Municipal Securities Field Hearing
December, 2010
Washington, DC

More events...

SPORTS FACILITY FINANCING (CONT'D)

The obligor's general credit position is the most important factor when analyzing an appropriation-backed bond. Factors to consider include its overall financial state, debt burden, underlying economy, and tax environment. State governments and most local governments would be unwilling to ruin their market standing by not appropriating on their bonds, even if the financed facility is not in use anymore; however, this may not apply to smaller and weaker credits.

A recent article in the New York Times underscores this point as it highlights several instances of governments that continue to service the debt of stadiums that are no longer in existence. These include the now-demolished Giants Stadium in New Jersey and the Kingdome in Seattle.

Nevertheless, investors should also be familiar with the provisions of the facility lease between the team and the governmental owner. Issues to consider include the period

> ***"Issues to consider include the period of time the team is required to play at the facility, penalties to be paid if the team breaks the lease and relocates, the team's rent obligations to the owner, and the allocation of facility revenues between the team and the owner."***

of time the team is required to play at the facility, penalties to be paid if the team breaks the lease and relocates, the team's rent obligations to the owner, and the allocation of facility revenues between the team and the owner. Leases

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A Stadium Grows in the Bronx: The Yankee Stadium Bonds

The Yankee Stadium financing employed innovative strategies that enabled tax-exempt bonds to be issued for a privately funded stadium. In August 2006, the New York City Industrial Development Authority ("NYCIDA"), a city agency whose mission is to promote economic growth, sold $942.6 million of 40 year bonds for the construction of Yankee Stadium. The bonds are secured by payments in lieu of taxes ("PILOT") to be made annually by the Yankees. PILOTs compensate governments for services to entities that are not subject to taxation such as governments, colleges or hospitals. They also serve as an economic development tool as a way of providing tax abatements to targeted industries. The bonds were crafted with the pledge of PILOTs rather than by revenues from the Yankees ("Team") in order to qualify the issue for tax-exempt treatment.

The tax code considers a bond to be a private activity bond and therefore taxable if it complies with two tests; the private business use test, which is satisfied if a private business utilizes more than 10% of the bond proceeds, and the private payment test. Under the private payment test no more than 10% of bond repayment can be derived from a private business. If the bond structure fails to comply with any one or both of the tests, the bonds are eligible for tax-exemption. As PILOTs are a form of property taxes, the issue is deemed to be payable solely from government revenues and thus fails the private payment test. The value of the tax-exemption is significant. The Tax Foundation has estimated that the savings as a result of the lower tax-exempt rates the Yankees range from $230 million to $470 million over 30 years.

The transaction was constructed as a series of leases among four parties. New York City owns the site of the new stadium and leased it for 99 years to the NYCIDA. The NYCIDA then subleased the land and leased the new stadium for 40 years to the Yankees LLC ("LLC"). The LLC is a special purpose, bankruptcy remote vehicle affiliated with the partnership that controls the Team) and was set up to build, operate and maintain the new stadium. Under the Stadium Sublease, the LLC subleases the project to the Team for the same 40-year term.

Because the City owns the site, the property, including the new stadium, is exempt from taxes. Instead, according to a PILOT Agreement, the LLC makes PILOT payments directly to the bond trustee for debt service. The Yankees assigned their Team ticket sales and suite license fees to the LLC as a funding source for the PILOTs, but these revenues are not formally pledged to debt service. The Yankees have signed a non-relocation agreement that has them playing at Yankee Stadium for at least the full term of the lease.

The distinctive use of PILOTs for stadium financing prompted bond counsel to request a private letter ruling from the IRS seeking an exemption of the issue from the private payments test. In order to categorize the Yankee's payments as PILOTs under tax law, the bond participants must demonstrate that the PILOTs would not exceed the Yankee's property tax bill had they owned the property. Complicating matters, PILOTs had to be sized to cover full debt service on the $940 million issue. It was therefore essential that the City produce an assessment of the property large enough to generate property taxes above the scheduled PILOTs. While there was some controversy as to whether or not the City's estimated assessment of the property was elevated, the final numbers were adequate to meet the requirements of the tax code. The IRS accepted the City's assessment and sanctioned the use of PILOTs for the Yankee Stadium financing.

Expected annual PILOTs would total about $56.7 million, enough to cover expected annual debt service of $51.2 million by approximately 1.11 times. In 2005, the year before the issuance of the bonds, the Yankees took in nearly $157 million of ticket and suite revenues, close to three times the amount required for each year's estimated PILOT.

The bonds are insured by FGIC and MBIA, both rated AAA at the time they were issued. Moody's and S&P rated the underlying credit of the Yankee Stadium bonds in the lowest investment grade category, Baa3 and BBB-, respectively. In 2009, the NYCIDA issued approximately $259 million of additional PILOT bonds, guaranteed by Assured Guaranty, to fund cost overruns and complete the project.

SPORTS FACILITY FINANCING (CONT'D)

that bind the team to play in the facility beyond the final term of the bonds or require payment from the departing team which are sufficient to retire the remaining debt are considered the strongest from a credit perspective.

In 1991, the St. Louis Regional Convention and Sports Complex Authority issued $259 million of lease revenue bonds to fund the construction of the now named-Edward Jones Dome, current home of the NFL St. Louis Rams. The issue consisted of three separate bond series, each secured by lease payments from one of the three government sponsors – the state of Missouri, St. Louis County, and the City of St. Louis. The State's bonds accounted for half of the entire issue while the remaining obligations were split between the City and County. The bond payments of the government sponsors are subject to annual appropriation. The State's general funds support its debt service liabilities. The County utilized revenues from a portion of its hotel tax while the City dedicated convention center revenues to cover their respective obligations.

At the time the bonds were issued, St. Louis did not have a commitment from an NFL team to play in the facility. The City's previous team, the Cardinals, had departed for Arizona in 1987. City officials were anxious to lure a team to their city and, in 1994, were able to sign a 30-year lease with the Los Angeles Rams to relocate to the City. The Rams became the St. Louis Rams and opened the 1995 season at the Dome.

In assessing the risk of revenue bonds, investors must take into account factors such as:

- *the extent to which the pledged revenue streams cover both current and maximum debt service;*
- *the stability of the revenues;*
- *historical trends;*
- *dependence of pledged revenues on the performance of the team and/or sports facility;*
- *restrictions on additional bonds secured by the same revenues;*
- *reserve funds; and,*
- *reauthorization risk.*

The Ram's lease with the City contains some very favorable provisions from the team's point of view. One of them requires that The Dome must be judged to be in the top 25% (top 8) of NFL stadiums, according to stipulated set of qualitative criteria. These include the status of luxury suites and club seating, lighting, scoreboards, concession areas, electronics, playing surface, etc. The next measuring date is 2015. If the Dome does not meet these standards, then the Rams will have the option to revert to a year-by-year lease and exit the facility. Since the Dome opened in1995 as a state of the art facility, 24 NFL football stadiums have been built or extensively renovated incorporating new designs and technology not available back then. This leaves the Dome as one of the older NFL stadiums. Depending upon the outcome of negotiations with the team, local governments may be required to invest tens of millions to bring the Dome up to the 25% standard and retain the Team beyond 2014. It should be noted that even if the Rams do leave St. Louis in 2015, it is highly unlikely that the sponsoring governments will renege on their bond obligations. However, the St. Louis experience underscores some of the uncertainties involved with sports facility financings.

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UPCOMING EVENTS

North Central Texas Regional Certification Agency Gala
December 2, 2010
Dallas, TX

Texas Municipal League Public Funds Investment Act (PFIA) Workshop
December 2 – 3, 2010
San Antonio, TX

Investment Management Network's 15th Annual Super Bowl of Indexing
December 5 – 8, 2010
Phoenix, AZ

MSRB Municipal Securities Outreach Seminar
December 6, 2010
Chicago, IL

Advanced Learning Institute: Social Media for Government
December 6 – 9, 2010
Las Vegas, NV

Smith's Research & Gradings All-Star Municipal Analysts Program
December 8, 2010
New York, NY

Standard & Poor's 2010 Leveraged Credit and Recovery Hot Topics Conference
December 9, 2010
New York, NY

The Bond Buyer's 9th Annual Deal of the Year Awards
December 9, 2010
New York, NY

More events...

SPORTS FACILITY FINANCING (CONT'D)

Special Tax bonds

The most common sources of repayment for publicly-supported bonds issued for sports facilities are special taxes. These include sales taxes, excise taxes, hotel and motel taxes, car rental taxes, food and beverage taxes, liquor and cigarette taxes etc. Tax revenues derived directly from the operations of the sports facility include taxes on admissions, parking, and concessions.

Special Tax bonds are popular for several reasons – issuance does not typically require voter approval, sales-based tax increases generally arouse less opposition than property tax hikes, and officials can justify their imposition as a tax primarily on outsiders, especially with hotel and car rental taxes.

In Houston, three major sports facilities – Reliant Stadium, Minute Maid Park, and Toyota Center, home of the NFL Texans, MLB Astros and NBA Rockets, respectively – were financed in part from bonds secured by hotel taxes, car rental fees, and taxes on mixed beverages. The funding for Target Field, the ballpark of the Minnesota Twins, was provided by bonds secured by a 0.15% countywide sales tax increase in Hennepin County.

In assessing the risk of revenue bonds, investors must take into account factors such as the extent to which the pledged revenue streams cover both current and maximum debt service, the stability of the revenues, historical trends, dependence of pledged revenues on the performance of the team and/or sports facility, restrictions on additional bonds secured by the same revenues, reserve funds, and reauthorization risk.

Credit strength is dependent upon the breadth and diversity of the sales tax base and the level of debt service coverage. Hotel taxes and car rental fees can be volatile due to their dependence upon tourism. Bonds secured by taxes derived from ticket sales or other stadium operations are subject to a severe downturn in revenues should there be a players strike or other extended interruption of play. Bond provisions should include viable back-up revenue support or extended reserve funds to cover such contingencies.

The City of Orlando's complex, multiple lien hotel tax bond financing of the $380 million Amway Center illustrates that even a strong revenue stream can be overleveraged into a high-risk credit. The Amway Center, which just opened, hosts the NBA's Orlando Magic. The $311 million 2008 bonds are secured by distribution to the City of one half percent of Orange County's six percent hotel/motel tax known as the Tourist Development Tax ("TDT). The TDT is a robust revenue generator due to the presence of Walt Disney World Resort, one of the world's top tourist destinations.

The pledged one half percent portion of the TDT ("pledged TDT") was aggressively leveraged. Historic collections were sufficient to cover only maximum annual debt service ("MADS") requirements of the first lien bonds but well below the amounts necessary to pay both senior lien and subordinate lien debt service. Pledged TDT revenues would have to grow over time in order to pay debt service on all bonds.

Given their reliance upon growth, the Orlando TDT bonds are not representative of most tax-revenue bonds. The vast majority of tax revenue bonds are issued with coverage "out of the box;" actual collections that already exceed MADS with margin to spare. Coverage requirements vary depending upon the stability of the revenue source and the inherent risk associated with the bonds. The TDT bonds were structured without existing coverage because of the need to maximize bond proceeds for construction combined with the TDT's durable growth patterns. In its 28 year history up to 2008, the TDT experienced annual declines in only two years. Based on historical patterns, a 2% average annual growth assumption for payment of all bonds appeared reasonable.

However, proving the maxim that historic performance does not always predict future trends, actual TDT collections fell by over 15% in fiscal 2009 and were continuing to decline during the first part of 2010. The City was forced to tap its reserve funds to service its subordinate debt. This led the rating agency Fitch to downgrade its uninsured ratings on the senior and subordinate bonds to junk status. In its report, Fitch stated that while it still expected the senior bond debt service to be paid on a timely basis, the subordinate bonds could exhaust their reserve funds and default by 2012 unless TDT revenues stabilized. TDT collections have recovered their early 2010 losses in recent months and it is likely that TDT revenues will perform better in the future. However, Orlando's experience demonstrates how quickly bonds dependent on growth can get into trouble when that growth fails to occur.

Private Funding Techniques of

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SPORTS FACILITY FINANCING (CONT'D)

Sports Facilities

As previously mentioned, Joe Robbie, the owner of the Miami Dolphins, pioneered the use of premium seating revenues as a financing vehicle for stadiums and arenas. In the mid-1980s, Robbie was unhappy with his Dolphin's current home, the 50-year-old Citrus Bowl, and pressed Miami city officials to provide him with a new stadium. When the City refused, Robbie decided to build his own stadium without public monies.

Robbie planned to generate the necessary funds through the leasing of skyboxes and club seats. Skyboxes, private enclosed booths designed to accommodate ten to 15 guests, provide amenities such as a wet bar, food service, private bathrooms, televisions, etc. Skyboxes have been part of sports facilities for the past two decades, but Robbie's actions enabled teams to exploit their true economic potential. He created 216 skyboxes at his new stadium, priced between $29,000 and $65,000 per season, and leased them for ten years.

Club seats are general stadium seats placed in choice locations and provided with various amenities such as more comfortable seating, food service, access to restaurants, etc. Like skyboxes, fans lease club seats for a certain period and pay much higher prices than for regular seating. Robbie's new stadium contained 10,000 club seats leased for ten years at seasonal prices ranging between $600 and $1,400 per season.

Skyboxes and club seats especially appealed to corporations, who could use them to entertain their clients and write off the costs on their taxes. Between the skyboxes and club seats, Robbie raised, on average, $10 million each year. With those funds, he was able to pay off his $90 million construction loan (issued as a tax-exempt IDB in 1985) for the new stadium within ten years.

Skyboxes, now called luxury suites, and club seats are two major sources of contractually obligated income ("COI"). These enhanced stadium facilities can generate tens of millions, even hundreds of million of dollars for team owners. Other COI income streams are discussed below:

Risks to investors include:

- *renewal risk;*
- *construction risk;*
- *team risk;*
- *relocation risk; and,*
- *strike risk.*

- Personal Seat Licenses ("PSLs") are contractual agreements giving the purchaser the right to buy seasons tickets at a specific location for a set number of years in exchange for a fee. The tickets themselves must be purchased separately. PSLs can be sold and traded on the open market. PSLs can provide team owners with a substantial upfront cash deposit to help fund stadium construction costs. The NFL Carolina Panthers raised $140 million in PSLs to finance their stadium. The Dallas Cowboys were selling PSLs for their new stadium at prices ranging from $16,000 to $50,000. The San Francisco Giants raised between $50 and $60 million from the sale of 15,000 PSLs for their new ballpark, which opened in 2000

- Naming Rights were initiated in 1987 when the Los Angeles Forum was renamed the Great Western Forum. Naming rights are an extremely lucrative source of income for professional teams. Citigroup signed a stadium naming rights deal with the Mets for 20 years at approximately $20 million per year. The Houston Texans garnered $300 million over 30 years when it sold the naming rights to its stadium to Reliant Energy. Nam-

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UPCOMING EVENTS

Housing Trust Fund Corporation (NY) Board Meeting
December 9, 2010
Webcast

Smith's Research and Gradings State & Local Government Finance Conference
January 19 – 20, 2011
Chicago, IL

Texas Municipal Utilities Association Annual Conference
January 20 – 21, 2011
Fort Worth, TX

Texas City Management Association William "King" Cole Session I
January 27 – 28, 2011
Austin , TX

Texas Municipal League Elected Officials' Conference
February 11 – 13, 2011
Austin, TX

Texas Municipal League Legislative Briefing
February 14, 2011
Austin, TX

Texas City Management Clinic
February 17 – 18, 2010
Salado, TX

Texas Municipal League Public Funds Investment Act (PFIA) Workshop
March 3 – 4, 2011
DeSoto, TX

Securities Industry Institute
March 6 – 11, 2011
Philadelphia, PA

More events...

SPORTS FACILITY FINANCING (CONT'D)

ing rights are also sold for certain areas within the stadium such as entranceways, breezeways, the field, etc.

- Revenues from parking are one of the smaller revenue generators for teams.

- Advertising has been a key revenue source for professional sports teams since at least the 19th century. However, new technology and creative media have opened up many more opportunities for ad income. For example, signage can now contain numerous ads, which are rotated around throughout the course of a game. Another option involves sponsorship where sponsors purchase the right to display their ad or logo on uniforms, team paraphernalia, or other promotions. Naming rights is a form of sponsorship. Other advertising strategies include pouring rights, which allow a concessionaire to exclusively sell its product at the ballpark, and virtual advertising. Virtual advertising consists of promotions and ads situated in the stadium which only television viewers can see. Projected revenues from advertising can be sizable – the Dallas Cowboys anticipated $90 million annually from marketing and sponsorship activities.

- Concessions are rights transferred to the concessionaire to sell food, refreshments, merchandise, and other items in the facility according to a concession agreement. The team's revenues are usually based on a percentage of the profits on certain sales. A variation of concession agreements is concession slotting, where the team receives a one-time fee in exchange for a long-term contract to the concessionaire. Concession slotting is typically used to provide upfront funds for facility construction.

Because their prices are usually fixed for the term of the contract, club seats and luxury suite rentals produce stable revenue streams for team owners. However, these contracts, which typically extend out five, ten or 15 years, are subject to renewal risk. Even before the lease or contract expires, the team strives to renew the contract at the same or better terms than the prior one.

Negative developments such as a bad economy, a poorly performing team, and competing entertainment options may bring down the renewal rate and lower the overall value of the facility's premium seating options. Key Arena, former home of the Seattle Supersonics NBA team, was only able to sell 28 of 48 luxury suites for the 2005-2006 season. This may have been one of the factors leading to their move to Oklahoma City in 2008.

Other risks to investors include construction risk, especially given the enormous costs involved with building today's stadiums, team risk including exposure to the team's financial condition, relocation risk, and strike risk. Stadium bonds should have reserves set aside to cover any interruption in revenues due to a long lockout or strike.

With the proliferation of premium seating and suite revenues as well as income from naming rights and advertising, corporations have become a much larger component of teams' revenue base. A 2007 study found that three out of five professional teams had over 90% of their luxury suites owned by corporations. The profitability of local corporations can have a sizable effect on COI revenues even in the major sports markets. For example, in 2009, Cablevision, the owner of the NBA New York Knicks and NHL Rangers, reported reduced suite renewals as the recession scaled back corporate spending.

The COI revenues form the backbone of private financing efforts for sports facilities. One example of their use is the financing of the Staples Center, home of the NBA's Los Angeles Lakers and Clippers, NHL's Kings, and the Los Angeles Sparks of the WNBA. The financing consisted of a securitization of facility revenue streams through the creation of a bankruptcy remote entity named LA Arena Funding LLC. The future revenue streams were transferred to the LLC who in 1999 then privately placed $315 million of taxable notes secured by those revenues. These include revenues from the luxury suites, 10 corporate sponsorships, naming rights with Staples, Inc., premium seat revenues, and a portion of a concession agreement with Levy Restaurants. Final maturity is in 2026. The issue received ratings in the A category from Moody's and Fitch. Coverage of debt service has averaged about 1.5 times over the past three years.

Lakers and Kings have signed leases to play at the Staples Center through 2024 while the Clippers' lease extends to 2014. The major risks include renewal risk, which remains low as the Staples Center officials announced earlier in the year that all luxury suites had been leased, and the real possibility of an NBA lockout in the 2011-12 season.

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SPORTS FACILITY FINANCING (CONT'D)

The financing of the Dallas Cowboys Stadium, which opened in 2009, was accomplished through a partnership between the Cowboys and the City of Arlington. Originally, construction costs were estimated to be $650 million so the City's contribution of $325 million in bonds represented about half of the cost. However, the project encountered massive cost overruns, for which the Team was responsible, and the final price doubled to $1.2 to $1.3 billion.

The City's bonds are secured by proceeds from ½ % of the City's 1 ¾ % sales tax, a 5% tax on car rentals within the City, and a 2% share of the City's 7% hotel tax. A small $20.1 million taxable portion of the offering is also payable from the Team's annual $2 million rent payment to the City (for 30 years) and 5% of any naming rights revenues up to $500,000 per year. So far, the team has not signed a naming rights agreement with any sponsor. The issue structure provides that excess revenues in the early years are used to retire principal maturing later on. At current tax revenue levels, the bonds will be fully retired before scheduled final maturity. The bonds were insured by MBIA but carried A-category underlying ratings.

Other sources of financing for the Cowboys Stadium included $25 million of infrastructure improvements from Tarrant County and $148 million of taxable bonds issued by the City secured by a 10% tax on tickets and a $3 per vehicle parking fee. The issue was privately placed and insured by AMBAC. In addition, the team secured a $76 million loan from the NFL in which repayment is made from the visiting team's share of club seat revenues. Another $350 million was provided through a Bank of America loan payable from premium seating revenues. The remaining $276 million consisted of cash put up by the Team. While it is not certain how the Cowboys raise the funds, analysts have estimated that the sale of PSLs could bring in over $700 million in upfront revenues.

Stadium revenue bonds are often sold to institutional investors in the private placement market and are not generally available to retail investors. Still, given the public-private nature of today's stadium development, these bonds form an integral component of many stadium and arena financing packages. Sports facility bond investors on the tax-exempt side should have an understanding of how all of the pieces fit together, in order to reasonably gauge the prospects of the enterprise and the impact it would have on the value of their own stadium bonds. ♣

Larry Levitz is a contributor to Muni Market Update. The opinions expressed are his own.