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EXECUTIVE SUMMARY

The purpose of this research design was to make recommendations to Louisville Metro Council Members, members of the Kentucky General Assembly from Jefferson County and Louisville Metro Mayor Jerry Abramson on the potential revenue and economic impact a potential franchise of the National Basketball Association (NBA) could have on the proposed Louisville Arena Project and the city of Louisville.

Research in the literature review showed that stadiums, arenas and professional teams are poor investments by communities. Despite the research, the new Louisville Arena is going to be built because the Kentucky General Assembly included $75-million in bond financing for the Louisville Arena and the city of Louisville has already pledged their bonding capacity to help pay a third of the cost. One of the major components lacking is research to show if a professional team can help subsidize an arena that is already in existence and as a result, making it a “dual-use” facility.

The proposed Louisville Arena project must have 113 dates annually to operate at a “break even” level. Currently, 138 events take place in Freedom Hall annually according to the Leib Group, consultants for the new Louisville Arena project, but only a portion of those events are expected to move to the new arena when it opens. As a result, Louisville lawmakers are going to need to start looking at ways to subsidize the debt service obligations and the question this study addresses is if an NBA team could do just that.

The results of a study by the University of Memphis show that 58% of visitors in attendance for their dual-use arena, the FedExForum, would be from outside the city of Memphis. This study is critical to the Louisville/Metro area in that Louisville and Memphis are comparable size demographically and financially. This study also indicated these visitors would arrive solely to attend an NBA game. Therefore, any money these visitors bring into Louisville/Jefferson County for an NBA game represents new money to Louisville, but not necessarily to the state.

Comparisons of the proposed Louisville Arena to NBA arenas located in cities of a similar market size to Louisville indicate that the proposed single-use facility is adequate enough to serve as a dual-use facility. Results also revealed that if an NBA team were attracted to the city of Louisville, $24 million (available in Table 7) in new revenues could be generated for the city of Louisville and the Louisville Arena Authority by having a dual-use facility. This is largely due to the NBA providing new “entertainment” to the community because an NBA team draws from a larger market base. There is also the reality that currently not a single major-league professional team of any type in the state of Kentucky. This contrasts with the University of Louisville men’s and women’s basketball teams which would simply move the entertainment money from one location (Freedom Hall) to another location in downtown Louisville.

Incentives and the probability of attracting a potential NBA franchise to Louisville were addressed, as was a discussion on how the arena would still be able to issue tax-exempt bonds, even if one of the “primary” tenants is a privately held professional basketball team. Recommendations were made based on the results of the economic and revenue impact analysis. The recommendations provide a different perspective on how an NBA team can move into a community and help bring in new revenue and visitors.

PROBLEM STATEMENT

The idea of state and local governments supporting sports facilities in the community is not new. Cities, counties and states have historically played a critical role in the development of sports facilities such as baseball stadiums, football stadiums, basketball and hockey arenas and racetracks.

Kentucky's largest city, Louisville, finds itself in the midst of a controversy and debate. State and local officials are debating on the construction of a new arena for the University of Louisville men's basketball team. The current estimate on the cost of the arena is in excess of $350-million, with the state of Kentucky pledging $75 million and the city of Louisville using its bonding authority to help pay nearly a third of the cost.

The proposal of an arena is not a new one for the city of Louisville. However, the idea of constructing a dual-use facility has not yet been offered as an alternative. With a dual purpose arena, two primary tenants- the University of Louisville, as well as a potential NBA franchise, could utilize the facility as the main "anchors" of the arena. The focus of this paper is not where the Louisville Arena is to be built, or if the arena should even be built- rather, should lawmakers in Louisville construct the arena as a "single" or a "dual-use" arena? Could an NBA team potentially subsidize the debt service payments and more importantly, bring in new money to Louisville and Jefferson County?

OVERVIEW OF THE LOUISVILLE ARENA PROJECT

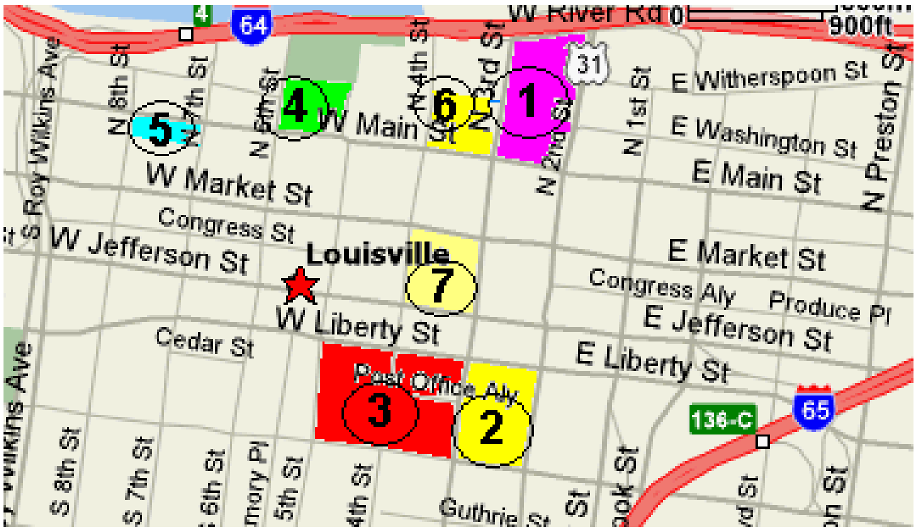
Throughout the last ten years, the construction of a new arena for the University of Louisville men's basketball team and the potential of attracting an NBA team for the project have been debated among public forums. The University of Louisville's current men's and women's basketball facility is Freedom Hall, a facility the state of Kentucky owns and maintains through the Kentucky State Fair Board. Freedom Hall was built in 1956 and is the oldest facility in Louisville's basketball conference, the Big East. In recent years, public demand for tickets and for corporate "luxury boxes" have been increasing. Also, there have been numerous scheduling conflicts in Freedom Hall between concerts and shows such as the National Farm Machinery Show, the Louisville Sport Boat and Recreation Show, as well as events like tractor pulls and rodeos. Simply put, with the University of Louisville being the primary tenant, Freedom Hall has lost opportunities at attracting other events to the arena.

In March 2005, Kentucky Governor Ernie Fletcher appointed the Louisville Arena Taskforce, which set out to examine the potential of constructing a new sports arena in Louisville. The task force consisted of area business leaders, elected officials and retired sports marketing expert, Jim Host. The arena taskforce was charged in examining a sports arena to maximize the economic development for the city of Louisville and the Commonwealth of Kentucky.

After a five-month study, the Louisville Arena Taskforce made a set of recommendations to Governor Fletcher proposing the arena be located in a downtown area. Initially, the taskforce studied two locations. These locations were the “Waterfront /Louisville Gas and Electric Site” and the “Water Company” site, respectively. With a vote of 12-4, the taskforce ultimately recommended the Louisville Waterfront site for numerous reasons. The first consideration was that the site offered enough room to build a 22,000-seat facility, where the “Water Company” site would house arena that estimated around 18,000 seats. This is smaller than Freedom Hall is currently.

Second, the Waterfront site was close to recent downtown investments such as Fourth Street Live, the Muhammad Ali Center, Waterfront Park and offered the destination appeal of the Kentucky International Convention Center. This was viewed as a positive by leaders in that visitors could be within a reasonable walking distance to downtown attractions. Third, the committee constantly emphasized the ability of the arena to serve as an “architectural” icon for the city of Louisville. Because the Waterfront site is located on the Ohio River and would be easily visible by interstate travelers on I-64, the Waterfront site would serve this purpose.   The proceeding map shows where the proposed locations are in relation to other downtown tourist and visitor destinations.

Map of downtown Louisville with proposed Arena Locations



1.) Proposed Waterfront site for the Louisville Arena
2.) Proposed Water Company site for the Louisville Arena
3,) 4th Street Live Entertainment Complex
4.) Kentucky Center for the Arts
5.) Louisville Slugger Museum
6.) Muhammad Ali Center
7.) Kentucky International Convention Center

The downtown sites have been met with a variety of controversies from many different groups. First, students at the University of Louisville and residents of the south end of Jefferson County want the arena located in close proximity to campus. Advocates in the Jefferson County delegation want the arena located at either the fairgrounds, or the “Water Company” site because of the cost savings to the Commonwealth as a whole. This is largely due to a large electric substation that currently is housed on the proposed “Waterfront” site. This substation, along with an office tower belonging to Humana, would have to be moved at an expense of nearly $70 million to the Louisville Arena project. Also, in the context of an NBA team playing in one of the locations, it would have to be a the Waterfront site due to the size of the arena that could be constructed on that site, as opposed to the Water Company site.

In addition to the site recommendations, the Louisville Arena Taskforce made recommendations to Governor Fletcher of how much support the state of Kentucky should contribute into the proposed project. At the time, the project was expected to cost approximately $300 million; however, by mid-spring 2006, the cost had escalated to over $350 million. Despite the rise in cost, the recommendation to the Governor and the Kentucky General Assembly was for the state to pledge $75 million in tax-exempt bonds for the 2006-2008 biennium budget. The city of Louisville is expected to pledged their assistance and bonding authority to the project, and already, $100 million in private investments have been pledge for sponsorships and luxury suite sales to help pay the debt service. The following chart depicts the various sources of income expected to help pay the construction costs of the new arena.

Table 1: Source of Financing for the new Arena

Sources of Financing	Amount in Millions of $
Louisville Arena Authority Bonds	$273.7
Commonwealth Bonds	$75
Parking Authority of the River City	$25.6
Metropolitan Sewer District	$6
Total	**$379.7**

As can be seen, the Louisville Arena is going to be operated by a public authority established that will be allowed to issue bonds. The Commonwealth bonds are the bonds offered by the state, and the parking authority and metropolitan sewer revenues are the support committed by the city of Louisville.

The 2006 Kentucky General Assembly included the $75-million bond issue proposed for the Arena in the 2007-2008 biennium budget, but did not specify a site, leaving it up to the Arena Authority to decide on a location. The University of Louisville has indicated they would not be interested in playing any ballgames in a site that did not hold more than a minimum of 20,000 people, meaning they would only agree to be the tenant in the arena if it were located on the Louisville Waterfront site.

Noticeably absent in the recommendations and analysis conducted by the numerous consultants on the Louisville Arena project is the question of whether or not the arena could be used as a dual-use facility and what the potential revenue and economic impacts that an NBA team could have on the city of Louisville and the entire arena project. A dual-use facility is defined as a facility that has two “permanent” anchors that take up the majority of the events on an annual contractual basis. Would an NBA team create new revenue for Louisville and Jefferson County leaders to ultimately make their investment in the project more viable and yield a greater return? Is an NBA team, as a second primary tenant a viable option to explore to help pay the debt service obligations?

LITERATURE REVIEW

In examining the impact of an NBA team on the city of Louisville, it is important for city leaders to understand the definition of an Economic Impact Study. Dr. Ginny Wilson (1994) explains that the two criteria for judging an economic impact are completeness and accuracy. Wilson (1994) explains that impact analysis and multiplier analysis are derived from the export base theory of regional economics which holds that two ways that a city can increase the size of a regional economy are to draw dollars into the region from the outside and to keep dollars in the region, which are otherwise leaked out. Movement of dollars within the region does not generate a net increase in the size of the regional economy (Wilson 1994). For instance, any potential NBA team could draw fans from across the state, and across Indiana, Ohio, Illinois and other states in close proximity to Louisville. On a local level, the NBA team might also help prevent local dollars being leaked out of the community to NBA teams located in nearby Indianapolis.

Wilson (1994) also explains the importance of the definition of a region. Wilson (1994) explains that a region can be any contiguous area. A “region” and the boundaries of that definition in the study are important in assessing the costs associated with a proposed project.

Another key point in economic impact analysis is the study of leakage (Wilson 1994). If a regional economy can grow by attracting or retaining new dollars to its economy, then it is reasonable to infer that the city and economy could grow in size; but this does not occur because the new dollars attracted or retained could eventually leak out of the region as individuals purchase goods and services not produced in the region (Wilson 1994). In terms of industry, multipliers are best understood as in indication of the relative strength of the linkages of a particular industry to the rest of regional economy (Wilson 1994). To help account for leakage, economists are able to use multipliers, which reflect the degree to which an initial dollar recalculates through the regional economy before it leaks out of the system (Wilson 1994). For the study of attracting an NBA team to the city of Louisville, it is important to take into account the impact on dollars within the region, which in this study, will be Jefferson County only.

John Siegfried and Andrew Zimbalist (2002) wrote specifically to Wilson's (1994) points that sports multipliers are an attempt to measure how new local spending is created through the sports arena and teams creation. The use of multipliers in the promotional studies typically assume the athletes, who take part in these professional sports activities, spend, save and invest like the average individual in the region. This is one of the big reasons, according to experts, that promotional studies that are used to defend the construction of a new facility, which are usually conducted by the promoters of the venue, have a greater economic impact than those done by independent groups or individual citizens.

John Siegfried and Andrew Zimbalist (2000) took a look at the economics of sports facilities and impact on the communities in which they were built. They highlighted three major reasons why there are often overestimates of revenues in studies for arena projects: the substitution effect, leakages and the negative effect on local government. Siegfried and Zimbalist's ideas are reinforced by Wilson (1994) in the idea of leakage in any project and examination of economic impact.

Siegfried and Zimbalist (2000) explain the "substitution effect" using the basic economic principal that individuals in the community have a fixed amount of income to spend on leisure activities. This theory accompanies Wilson's explanation in the respect that sports arenas simply "shift" the spending from one area of the region (in this case of this project, Jefferson County), to another- therefore, no "new spending" is created. Promotional studies, however, usually counter this argument with statistics about out-of-town fans attending sporting events. In theory, sports arenas are able to attract spending from outsiders that they claim would not normally be able to attract with their own residents' "leisure" activities. Siegfried and Zimbalist (2000) argue against the promoter's points in their text stating that if there were no sports venues in that particular region, then the people traveling would essentially spend their money on other forms of leisure.

In terms of local governments, Siegfried and Zimbalist (2000) claim that the negative budgetary impact created by the construction of a sports arena cancels any positive impact created. This is due to the financing and lease terms of the sports arenas to the teams and the role they play in determining the economic impact upon taxpayers. Also, there are the added costs associated with arenas such as police traffic control, public safety and improvements in signage, lighting and other items around the facilities. Siegfried and Zimbalist explain that usually the state and local governments of these regions have to implement a variety of taxing methods to make the arenas financially viable, thus, creating a sort of government "subsidy" for the arena projects.

Janet Ward (1991) feels that professional sports teams and arenas are not worth the trouble and their opportunity cost is low compared to other government projects. Although the government may not realize a large return on investment by investing in the construction and management of sports arenas, it is important understand the rate of return might not be as high if the government were to have invested that same money into other projects. Ward claims that very little sales tax revenue is generated from these projects, and local governments who spend their money on these projects have to take away money from other needs in the community such as police and fire protection, libraries, public transportation and other social services.

Louisville Metro leaders must also consider the implications of the financing they choose to construct the arena, whichever proposal is chosen. Citigroup prepared a great summary of arena bonding and the implications to the Louisville Arena Taskforce through the Commonwealth of Kentucky Office of Financial Management (2005). Throughout the 1960's and 70's, bonds for these facilities were supported by general fund revenues. In the mid-1970's, a shift occurred that called for bonds being supported by revenues directly or indirectly linked to the economic development these projects brought to the community.

For the last twenty years, bonds for sport complexes have been supported by multiple revenue streams. These include the increase of private participation,

participation by city, county and state governments and even the revenue and profit that the facility brought in from naming rights, sales of personal seat licenses and the so-called “luxury boxes”, which are sold to individuals or corporations with deep pockets for the purpose of entertaining guests (Citigroup, 2005). In recent times, secure revenue sources such as premium seating, naming rights, sponsorships and luxury boxes have enabled arena financing to achieve higher investment grade ratings and bond insurance commitments.

Historically, general obligation bonds have been used in these projects if full-faith and credit of the municipality is pledged. This is usually the strongest form of financial support in the financing approach (Citigroup 2005). Other examples important to the Louisville Arena are the dedicated tax revenue bonds in the region. These dedicated taxes can pay for the bonds through the sales tax, hotel taxes, rental car taxes, food and beverage taxes, tax increment districts, business development districts, professional sports development district taxes, parking taxes and ticket taxes to name a few (Citigroup 2005).

When issuing these municipal bonds, Citigroup (2005) discusses important reservations when considering the credit issues that come from municipal bonds. Namely, the project must have pledged political support for the revenues (Citigroup 2005). In the Arena project, this would come from the pledge from the Kentucky General Assembly and the Louisville Metro Government. Underlying Economic Support is also critical, which can be viewed by the work of mayor Abramson and Greater Louisville Inc., which has pledged a quarter of the cost of the new arena.

Citigroup also examined the viability of the private financing goals that the Louisville Arena Taskforce and Louisville Metro leaders should set out to determine. The goals included tenants of the new arena, such as the University of Louisville, or in the purpose of this study, a potential NBA franchise and the University of Louisville. For private funding, there are important funding sources for the project. These six items include the luxury suites, club seats, naming rights to the facility, advertising/sponsorship within the arena, parking and concessions and novelties (Citigroup 2005).

Something critical in the consideration of building the Louisville Arena for use by both an NBA team and the University of Louisville is the Federal Tax Status. To be tax-exempt, bonds must fail at least one of the two tests established under the Tax Reform Act of 1986. First, is the private business test. The private use test is if more than ten percent of the proceeds of the issue will be used (directly or indirectly) by a private business (hockey, arena football, concerts). The second is the private payment test (financing secured by naming rights, sponsorships, premium seating, etc.)- if the payment of the principal of, or the interest on, more than ten percent of the proceeds is directly or indirectly secured by any interest in property used by a private business or to be derived from payments from property used by a private business (Citigroup 2005). In many cities, the facilities that NBA teams use are usually always taxable bonds, because a privately held company (NBA team) receives the benefits of the bond issue, thus the cost to the taxpayers are higher because the taxable bonds are not as a competitive market as the non-taxable bonds. This is important information to keep in mind when considering how an NBA team can use the Louisville Arena and not change the type of bonds that could be issued.

Kelly Smith wrote an extensive report on the value of professional sports franchises in her report: “Valuing Professional Sports Franchises: An Econometric Approach.” In the report, Smith (2004) used the principal that the value of any business is based on its potential for future economic earnings. There are three common approaches to valuation, the cost or asset based approaching, the market/sales comparison, and the income approach (Smith 2004). Smith prefers the later two approaches when placing a value on sports teams. The market/sales comparison uses principals of competition in a free market and relies on the assumption that, in an aquarium, the price of an investment will apply to similar investments, with some minor modifications (Smith 2004). The income approach, simply stated, is the value of the team is based directly on the present value of the expected cash flow earned for the duration of the enterprise (Smith 2004). This is important to Louisville because when examining the possibility of landing an NBA team in the city, the city and region has to be attractive enough to a potential investor, as well as the NBA to warrant allowing a team to locate there.

When examining statistics and the value of an NBA team, Smith used a variety of descriptive statistics to examine the worth of an NBA team and what economic impact that team brings to the community. For instance, as the number of viewers watching an NBA team located in the area increases, the more people are exposed to that team and may want to attend one of their games in person. The more populous the city, the more local television revenue the team will generate from the sales of endorsements and exclusive media rights. Finally, a large, local fan base can have a positive effect on the merchandising and licensing revenue of the NBA team (Smith 2004). These facts are important to Louisville because the city must be able to be competitive their demographics in relation to per-capita income, size of the population and number of employers in the region in order to attract an NBA team.

Siegfried and Zimbalist (2000) claim the “unmeasureables” of sports arenas are important factors when realizing the economic impact of sports facilities. Siegfried and Zimbalist assert that sports arenas can help initiate the process of core redevelopment. According to the authors, this is because sports arenas offer the cities and regions they serve an opportunity to reposition the economic activity within a metropolitan area. Siegfried and Zimbalist also suggest that only a sports arena that is surrounded by a year-round business district or residential neighborhood will attract substantial independent investment to that area. This is important to the city of Louisville when considering where the arena should be constructed. Based on these findings, the arena has to go downtown, which leaves lawmakers with two choices on where to locate the arena. However, based on the desires to make it a cultural icon, as well as make it big enough for UofL's use, it must go on the Waterfront site.

Siegfried and Zimbalist agree with the Louisville Arena Taskforce in the sense that the arena has the opportunity to put a city "on the map". They agree that the sports arena promotions in regional, national and even international media coverage can have a positive effect on the tourism and economic development activities from a promotional standpoint. This is a psychological effect in that a major arena brings to the visitors' minds the idea they view in the media. The visual sends a message according to the authors that if the cities are able to attract this type of sports venue, then it also could attract, or has attracted, other cultural resources and opportunities like theatres, operas, art galleries, and parks. The economic impact of the sports arena might be exaggerated, but the intangible good such as civic pride is unquantifiable.

This raises the question, are the unquantifiable, intangible benefits associated with the Waterfront Site commensurate with the extra cost to build the arena on that site? Granted, only the Waterfront Site would hold an arena big enough to meet UofL's and the Louisville Arena Authorities' demands, but the fact remains that it is a debatable issue and one that could be examined after the arena is constructed. This could be done by using surveys after construction of the arena to see if visitors to Louisville report that the intangible "image" portrayed by the arena had any influence on them wanting to visit Louisville.

This study will not answer those questions, but it is worth considering if the arena is built on the Waterfront Site, despite its extra costs.

Zartesky is a strong proponent that the increased tax revenues that cities expect to receive from their investment are not necessarily “new” money. Zaretsky claims that the studies often overlook, or outright ignore, the fact that the facilities often do not bring in new revenues into the city or metropolitan areas, but often the revenues are just substitutes for those that would have been raised by other activities (Zartesky 2001). This is due to budget constraints, which implies that households only have so much money to spend, particularly on entertainment. If the family chooses to spend the money at the arena then that money cannot be spent at the mall, thus no new revenues are being generated to the city.

Zaretsky makes the case that public funds for a stadium can only generate new revenues for a city if one of the following situations occur: 1.) the funds generate new spending by people from outside the area who otherwise would not have come to town 2.) the funds cause area residents to spend money locally that would not have spent there otherwise 3.) the funds keep turning over locally, therefore creating “new spending” (Zaretsky 2001). This is exactly what this study examines- can an NBA team generate enough new spending by people outside the area who would not otherwise come to town to help meet the debt service requirements of the Louisville Arena and generate a benefit to the City of Louisville over the construction of a single-use facility?

METHODOLOGY

This paper will present the amount of new tax revenues that the city of Louisville, Kentucky will/will not, receive from the operation of the new Louisville Arena as a dual-use facility that will be built on the “Waterfront Site.” The report provides a comparison if the arena is built for a single-use facility for the University of Louisville and if the arena were constructed for two primary tenants- the University of Louisville and a potential NBA team.

The paper will help assist Louisville Metro Government members, mayor Jerry Abramson and members of the Kentucky General Assembly from the City of Louisville in determining how the arena should be constructed and if the money that it would take to construct an NBA facility would be worth the extra cost in the amount it would return to the city.

A literature review was conducted to support the need and relevancy for the research desired before Louisville Arena construction begins. It was also used to identify the factors and characteristics which will lead to the data and ways to analyze the data in arena projects. The literature review also examined other cities results with arena projects and factors to examine to determine success or failure.

The data for this study on the impacts of an NBA team will come from a report published by the city of Memphis in May, 2001 which was prepared by The University of Memphis Regional Economic Development Center. The University of Memphis completed this report as an independent analysis for city of Memphis lawmakers and was not intended to be bias in the findings to advocate for a certain cause. The city of Memphis is a comparable with the city of Louisville for the following reasons:

1.) Memphis and Louisville are eighteenth and sixteenth, respectfully, in their size according to 2000 Census Data. Louisville Metro has a population of 700,300 and Memphis has a population of 671,929.
2.) Memphis and Louisville are similar in geographic location. Both are on the Mississippi “flyway”, both are on borders with other states and both are located in the Southeast United States.
3.) Memphis is a good comparison because it represents a recent move in the NBA of a team from another city.
4.) The FedEx forum, located in downtown Memphis is a dual-use facility. The arena is used by both the Memphis Grizzlies NBA team, as well as the University of Memphis for their home basketball games.
5.) The FedEx Forum was built across town from another arena, the Pyramid that housed the University of Memphis at the time. This is similar to what would happen with Freedom Hall if the Louisville Arena were constructed.
6.) The demographics of the Memphis and Louisville are similar in their Metropolitan Statistical Area (MSA)
7.) Characteristics. Both have similar per capita incomes ($30,559 for Memphis and $31,251 for Louisville) and both are similar in the amount

of companies they have with 250+ employees (450 for Memphis and 458 for Louisville).

The Greater Louisville MSA is compromised of thirteen counties- these include Bullitt, Henry, Jefferson, Meade, Oldham, Nelson, Shelby, Spencer and Trimble Counties in Kentucky. Clark, Floyd, Harrison and Washington counties are in Indiana. The total population of the MSA is 1,200,847 individuals. This is very similar to the MSA of the City of Memphis, which is 1,147,825 thus solidifying the comparison between the City of Memphis and the City of Louisville.

Immediate leakage was impossible to examine in this study. It is impossible to predict player salaries, coaching salaries, travel costs, staff salaries and other items that would leave the City of Louisville if an NBA team were to locate in the city.

This data will also be updated in this report to reflect the twelve percent increase in the Consumer Price Index (CPI) due to inflation in accordance with the U.S. Department of Labor- Bureau of Labor Statistics from 2001 to 2006.

There are limitations to this analysis including assumptions that are mentioned in the results which find 58% of those in attendance of a potential NBA game in the new arena would be from outside the Louisville/Metro Area and that these are new visitors there entirely for the NBA game- not necessarily those that would be in Louisville for another form of entertainment. This is an assumption based on the facts from the University of Memphis report, which is assumed that would work for Louisville as well due to the comparisons in MSAs and demographics. Until an actual NBA event takes place and a survey can be conducted, it is impossible to know exactly how many of those in attendance would be from outside the MSA and in attendance for the game because the NBA team is there, not necessarily substituting the NBA game for another form of entertainment in Louisville/Jefferson County.

RESULTS

The current proposal from the Louisville Arena Task Force to Governor Fletcher is for an arena to be constructed that will feature 22,000 permanent seats, with 72 luxury suites. The cost for the arena, including all site acquisition and preparation is projected at $354.4 million. This proposal calls for the University of Louisville men and women's basketball games to be the primary tenant for the arena. So where does the current Louisville Arena stand in terms of being able to hold an NBA team and facility?

When examining the current proposed arena facility for the Louisville Waterfront, the Louisville Arena Authority has basically proposed an "NBA Grade Arena" for Louisville. Of course, building it to NBA standards means that it far exceeds college basketball standards. When studying the top-15 college basketball arenas by size, the average number of seats is 20,456 with 35 luxury permanent luxury boxes per facility. Louisville's proposed arena is going to beat both of those numbers with 22,000 seats and 72 luxury boxes.

When examining the NBA arenas that have been constructed over the past ten years (to 1996), the proposed Louisville Arena fairs very well too. The following chart compares the number of seats, luxury boxes and cost of the arenas that have been constructed in the last ten years.

Table 2: Size and Cost of NBA Arenas constructed since 1996

City	Year Completed	Number of Seats	Number of Luxury Boxes	Cost in Millions
Atlanta	1999	20,000	92	$213
Charlotte	2005	18,500	37	$265
Dallas	2001	19,200	142	$420
Denver	1999	18,129	95	$165
Houston	2003	18,300	79	$175
Indianapolis	1999	18,345	67	$183
Los Angeles	1999	18,997	162	$330
Memphis	2004	18,500	82	$250
Miami	1999	19,600	110	$175
New Orleans	1999	18,000	56	$84
Philadelphia	1996	21,600	126	$206
San Antonio	2002	18,500	82	$175
Washington, D.C.	1997	20,173	110	$260
Average		**19,064**	**95**	**$223**

An interesting perspective on the current Arena proposal is that the arena meets the criteria to be home to a potential NBA team. For instance, the average number of luxury suits in the NBA is 88. The arenas constructed in the last ten years, the average number is 95, but this number also includes several outliers such as the Staples Center and Dallas, which have over 140 each. In markets the size of Louisville, 72 actually is a number on the high end of the scale. In simple terms, the proposed Louisville Arena is “NBA ready”.

The FedExForum in Memphis is home to sixty luxury boxes, twelve less than the amount proposed by the Louisville Arena. Also, in the NBA “small markets" the average results in 45 suites per arena. Considering that, the amount of luxury boxes to be constructed in the proposed Louisville Arena are adequate for an NBA team. Additionally, the NBA average capacity in the arenas is 19,353. The proposed 22,000 seats in the proposed Louisville Arena are adequate in that arena as well.

So where does Louisville stand on the probability of getting an NBA team and what would it take to get one to locate one in Louisville? According to Sports Economics, an independent sports consulting firm who has clients such as the NBA, MLB, NFL, NASCAR and other major sport organizations, the city of Louisville ranks very high on the list of cities who should land an NBA team. When examining these findings, Sports Economics consultants ranks Louisville second highest (at .649 out of 1.00) for probable locations for an NBA team, only behind San Diego (.85) on the list of cities without an NBA team. In fact, Louisville ranks higher than five cities that already have an NBA team for the feasibility for locations (Miami, San Antonio, Milwaukee, Cleveland and Sacramento). Also, Sports Economics ranks Louisville second highest in the potential gate receipts, of cities that do not have an NBA team, behind Hartford, Connecticut, and above eight cities that already have NBA teams in their towns (Los Angeles Clippers, Sacramento, Milwaukee, Charlotte, Dallas, Orlando, Cleveland, New Orleans, Denver).

When examining the recent transactions of NBA teams, there has been one expansion team added (Charlotte) and two moves recently (the Charlotte

Bobcats to New Orleans and Vancouver Grizzlies to Memphis). The average price of an NBA franchise in 2003 was $252.4 million. While the investors in Charlotte gave the NBA $300 million for the rights to a franchise, teams could possibly be purchased from smaller markets for the average prices. Teams such as the Golden State Warriors, Milwaukee Bucks, New Orleans Hornets and Seattle Supersonics are all valued below the $252.4 million average. In other words, these teams could probably be purchased from their owners for the $300 million league expansion league price that was established with the sale of Bobcat Franchise to Charlotte a few years ago. The cost and value of NBA teams are examined in the following chart:

Table 3: Worth and Purchase Price of Current NBA Teams

City	Team Name	2003 Worth ($ Millions)	Recent Purchase Price ($ in millions)
Atlanta	Hawks	$206	
Boston	Celtics	$274	360 (2002)
Charlotte	Bobcats	$300	$300 (2002)
Chicago	Bulls	$323	
Dallas	Mavericks	$304*	
Denver	Nuggets	$209	$202
Detroit	Pistons	$258	
Oakland	Warriors	$176	
Houston	Rockets	$255	
Indianapolis	Pacers	$246	
Los Angeles	Clippers	$205	
Los Angeles	Lakers	$426	
Memphis	Grizzlies	$198	$160 (2000)
Miami	Heat	$250	
Milwaukee	Bucks	$168	
Minnesota	Timberwolves	$213	
Newark	Nets	$218	
New Orleans	Hornets	$172	
New York	Knicks	$398	
Sacramento	Kings	$259	
Philadelphia	76ers	$298	
Phoenix	Suns	$272	

Portland	Trailblazers	$270	
San Antonio	Spurs	$242	
Seattle	Supersonics	$207	$250 (2001)
Toronto	Raptors	$217	
Utah	Jazz	$226	
Washington	Wizards	$278	
		Average $252.4	

*Dallas Mavericks price reflects 50% ownership in arena.

An interesting perspective on the Sports Economics' findings is that New Orleans actually ranked so poorly in both potential location models and estimated gate revenues. Despite this, the Hornets still moved to New Orleans from Charlotte and the NBA approved this move, even though Louisville would have been a much better choice based on the initial research by the independent Sports Economic firm.   The New Orleans television market was also smaller than that of Charlotte. So what influenced the Hornets decision? According to the The Sports Economics consultants the primary reason the Hornets moved from Charlotte to New Orleans was undoubtedly the more appealing facility agreement, with a more state of the art facility, that New Orleans offered the team compared to the deal Charlotte proposed.

The Sports Economic consultants also makes a compelling argument that Louisville is a prime spot for a potential NBA team and was a front runner for two of the relocations (Charlotte to New Orleans, Vancouver to Memphis), the only thing holding the teams back from locating to Louisville was an NBA-grade arena for the team to play in.   Under the current proposal for the new Louisville Arena project, that will no longer be a problem for a potential NBA team wanting to locate to Louisville, or for an expansion team to locate in Louisville.

As examined in the Literature Review, one of the critical components of any new arena is how much “new” revenue the facility would generate over the facility it replaces. The literature review supports the economic theory that the impact analysis and multiplier analysis are derived from the base theory of regional economics. The only way that Louisville is able to increase the size of a regional economy is to draw dollars into the region from the outside and to keep dollars in the region, which are otherwise leaked out. According to Wilson (1994) movement of dollars within the region does not generate a net increase in the size of the regional economy. If the proposed arena is constructed as a single-use facility, the results show that this is going to happen in the city of Louisville. There will be relatively few dollars spent inside the Jefferson County from outside the region. Currently, the proposed Louisville Arena would have to host approximately 113 events per year to break even for the first ten years of operation. The chart below depicts these findings :

Table 4: Proposed Events at the New Arena

Event	**New Arena (expected)**	**Notes**
UofL Men's Basketball Game	18	
UofL Women's Basketball Game	15	
Concerts-Other	18	
Family Shows	28	Based on estimate
NCAA Events	2	
Sporting Events	12	
Tradeshows	10	Based on estimate
Misc	10	Based on estimate
Total	**113**	

This includes an estimated eighteen UofL men’s basketball games, fifteen UofL women’s basketball games, two NCAA tournaments (in a ten year period), eighteen concerts, twenty eight family shows, twelve other sporting events (such as University of Kentucky basketball games, KHSAA Sweet 16 Tournaments and the remaining eighty-two events will have to be made up of other events such as consumer shows, circuses, wrestling and tractor pulls. Another interesting perspective is the 113 events per year average also include two NCAA Tournaments in the given life cycle of the bond payment. While every attempt has been made by the Louisville Arena Authority to build the arena to the specifications required today to hold an NCAA event, this does not guarantee Louisville will host an NCAA event.

To contrast these numbers, Freedom Hall on average, hosted 138 events per year, in the years 2003-2004. This is depicted in the table below:

Table 5: Freedom Hall Scheduled Events Currently and After New Arena Opens

Event	**Freedom Hall (current)**	**Freedom Hall after new arena**
UofL Men's Basketball Game	18	0
UofL Women's Basketball Game	10	0
Louisville Fired Arena Football	8	8
Minor League Hockey	0	36
Concerts-Other	10	6
KY State Fair Concerts	4	4
Family Shows	2	6
Ice Shows	0	2
NCAA Events	0	0
Motorsports	3	3
NFMS Tractor Pull	4	4
Sporting Events	6	2
Horse/Livestock Shows	36	36
Tradeshows	27	30
Misc	8	8
Total	**138**	**143**

These include eighteen UofL men's basketball games, ten UofL women's basketball games, eight Louisville Fire (Arena Football) games, ten concerts not associated with the Kentucky State Fair, four concerts associated with the State Fair, two family shows, two ice shows, three motorsports events, four tractor pulls, thirty-six horse/livestock shows, twenty-seven tradeshows/conventions and eight miscellaneous events. An understanding of these numbers, when looking at events that could potentially move from Freedom Hall to the new Arena reveals that, only 73 of the 138 events have the possibility to move from Freedom Hall to the new Arena.

This is due to many of the horse/livestock shows being associated with the Kentucky State Fair. Also, the Louisville Fire Minor League Arena football team has a long-term contract with Freedom Hall, and the Kentucky State Fair concerts would remain on the Fair Grounds. Also, the proposed new arena will not have ice below the playing surface; therefore, no ice skating events could take place there. In the end, when the new arena is constructed and opened, experts agree that Freedom Hall will lose $1.15 million in revenue per year beginning in the year 2010. This is $1.15 million that is transferred to the new arena from the difference in events.

The Louisville Arena Authority and the Kentucky State Fair Board, who will be operating the new facility, can rely on a minimum of forty-five additional dates to add to the total, resulting in the 113 dates it takes to break even if an NBA team is attracted to Louisville. The NBA-regular season now consists of an average of 90 games, including four preseason games that are split between two home games, and two away games. If an NBA team could co-anchor the arena, the forty-five games it could provide a year would improve the amount of debt service that could be paid from the use of the arena as a dual-purpose facility.

Since the proposed arena is “NBA ready”, it is necessary to analyze the potential revenue and economic impact an NBA team co-anchoring the arena, along with UofL, would have on the city of Louisville and the arena project. To analyze and study this, a comparison was done, as mentioned previously, with a report the University of Memphis published in 2001 for the city of Memphis’s lawmakers who were facing a similar situation as Louisville lawmakers.

As mentioned previously, the FedExForum and the city of Memphis are similar to that of Louisville in both size of the MSA and the demographics, such as per capita income ($30,559 for Memphis and $31,251 for Louisville) and companies with 250+ employees (450 for Memphis, 458 for Louisville). The MSA is important because it represents the region the new arena and a potential NBA team would be drawing from, thus bringing in new dollars to Louisville/Jefferson County.

Based on calculations from Memphis and applying them in present dollars for the city of Louisville, the spectator total impact in arena expenditures is $15.7 million. Most importantly is that the $15.7 million figure is distributed between local residents inside the city of Louisville and for those outside the Louisville/Jefferson County region.

Because "new" revenue impacts on the city of Louisville and Jefferson County are of concern, it can be assumed that there will be at a minimum of forty-five NBA games in the new arena. Also, no events will take place in the arena after the NBA game (in other words, the people are there for the NBA game only), twenty percent of the new visitor spending will be from the spectators of an NBA game. All of these assumptions are aligned with NBA studies conducted in Memphis and NBA markets across the nation.

Another interesting statistic are the numbers which are comparable from Memphis Ticketmaster Information on the amount of tickets sold inside the Memphis MSA and outside the MSA. Once again, this data is comparable for Louisville because the per capita income is virtually the same for the two areas. For example, the Memphis Grizzlies draw from 38% of their crowd from outside Shelby County, Tennessee and an additional 20% of their spectators from outside the 75-mile radius of the arena. Based on this fact, 58% of the spectators in attendance at any given Memphis Grizzlies NBA basketball game are from outside the city of Memphis. This fact, coupled with the similar demographics and methodology mentioned previously can be transferred safely to a comparison with the city of Louisville and Jefferson County. (Limitations to this information are discussed in the Methodology section of this study.)

If these assumptions are reliable, and there is no information in the research to say that they are not, non-local resident incremental expenditures for an NBA team will be $11.2 million annually. This will have a direct impact on the city of Louisville/Jefferson County of $5.2 million annually. When considering outside residents of the area expenditures, such as day-trippers and overnight visitors to Louisville/Jefferson County the amount of new money generated by an NBA team increases. If an NBA team is brought into Louisville, an additional $ 10.8 million annually can be brought in from day-trippers and overnight visitors to the region. Together with the amount of non-local resident expenditures, an NBA team could have an additional revenue impact of $16.1 million annually on the Louisville/Jefferson County economy.

It must be understood that under the limitations stated, this is presumed to be all new money coming into Louisville and Jefferson County, not simply new revenue moved from one location in the area. Under the proposed single-use facility, simply moving a UofL basketball game from Freedom Hall to the new arena is not generating any new money for Louisville and Jefferson County, with the possible exception of the few extra seats that the new arena has over Freedom Hall. Nonetheless, based on the limited draw of the region/state the University of Louisville enjoys and considering that audience is already established in the city of Louisville at Freedom Hall, the proposed single-use facility would transfer the money that would be spent in one area of the city (the Fairgrounds) to another arena/entertainment venue (the Waterfront site).

The statistics and numbers address the displacement issue of an NBA team. Displacement occurs when the economic activity an NBA team and arena generates impacts the economy in another form had the arena not been built; for example, going to a movie instead of the NBA game. When examining new money created by an NBA team into Louisville and Jefferson County from outside the county, displacement is not an issue, due to the reality that 58% of the attendance from outside Jefferson County and can be assumed to travel to the region (Louisville/Jefferson County) for the NBA game only. Of this 58%, perhaps their local communities are losing money, but Louisville and Jefferson County stand to earn this new money from an NBA team.

When examining the potential NBA impact on the debt service payment, the amount can be examined from a perspective of the commitments that have already been made towards the Louisville Arena. First, as mentioned earlier, there is a two-dollar service charge on all tickets for the arena. If a NBA team in Louisville reaches the 2004-2005 attendance average for all NBA teams, they will have 17,059 fans per game. Multiply this number by forty-five and you receive an annual average of 767,655 individuals in attendance annually. Multiply this by the two-dollar ticket surcharge created by the construction of the new Louisville arena and the NBA team could generate an additional $1.5 million annually for the first sixteen years in ticket fees for debt service and $2.3 million annually after the ticket increment goes to three dollars after the sixteenth year of operation of the arena.

When considering the new Louisville Arena, naming rights have been commonly referred to as a major source of revenue to help pay debt service. Naming rights have become a fixture across the country as subsidies for arena and stadium construction on both professional and collegiate levels. When studying the issue of naming rights in various college and professional arenas there appears to be a wide division on the amount a company will pay to put their name on an arena for a college team and what they will put their name on the arena used by a professional sporting team. The following chart offers a comparison between the different amounts paid in naming rights to all the NBA arenas with naming rights and all of the NCAA arenas with naming rights.

Table 6: NBA / NCAA Naming Rights

NBA Naming Rights

City	Arena Name	Annual Amount Paid
Atlanta	Phillips Arena	$8,400,000
Boston	FleetCenter	$2,000,000
Chicago	United Center	$1,250,000
Dallas	American Airlines Center	$6,500,000
Denver	Pepsi Center	$3,400,000
Houston	Toyota Center	$5,000,000
Indianapolis	Conseco Fieldhouse	$2,000,000
Los Angeles	Staples Center	$5,000,000
Memphis	FedExForum	$4,500,000
Miami	American Airlines Arena	$2,100,000
Minneapolis	Target Center	$1,250,000
East Rutherford	Continental Airlines Arena	$2,416,000
Orlando	TD Waterhouse Center	$1,560,000
Philadelphia	Wachovia Center	$1,290,323
Phoenix	America West Arena	$866,667
Sacramento	Arco Arena	$700,000
San Antonio	SBC Center	$2,050,000
Seattle	Key Arena	$1,000,000
Toronto	Air Canada Center	$2,000,000
Washington	MCI Center	$3,384,615
Average		**$2,936,584**

NCAA Naming Rights

University	Name	Annual Amount	Notes
Boise State	Taco Bell Arena	$266,667	
U of CO.	Coors Events Conf. Center	$5,000,000	one time
Canissus College	HSBC Arena	$800,000	
U of MD	Comcast Center	$800,000	
U of SC	Colonial Center	$458,333	
Ohio State	Value City	$12,500,000	one time
Fresno State	Save Mart Center	$200,000	
Siena College	Pepsi Arena	$300,000	
Texas Tech	United Spirit Center	$500,000	
U of Memphis	FedExForum	$4,500,000	
U of WI	Kohl Center	$25,000,000	one time
Creighton U	Qwest Center	$933,333	
NC State	RBC Center	$4,000,000	
U of IL	Allstate Arena	$110,000	
San Diego St.	Cox Arena	$1,000,000	
U of SD	Jenny Craig Pavilion	$7,000,000	one time
U of WA	Bank of America Arena	$900,000	
St. Louis U	Savvis Center	$3,600,000	
Syracuse U	Carrier Dome	$2,750,000	one time
AZ State U	Wells Fargo Arena	$500,000	
Annual Average		**$1,257,889**	
Annual College Only Average		**$632,143**	

Currently, the projection for the naming rights to the proposed Louisville Arena on the Water Front Site is $1.3 million for year one, followed by $620,000 for the next four years and $1.01 million for the following years. Although this amount represents “new money” the money measured by the naming rights is could be used for debt service payments or operation costs of the new arena. The naming rights bring in no tax revenue, nor do they generate any public good other than subsidizing tax dollars that will go into debt service payments.

Naming rights are important subsidies in arena construction projects. In examining the college arenas across the country that have sold their naming rights, the average annual amount paid for the naming rights was $1.2 million. However, this amount represents several outliers. Namely this includes three arenas that host professional NBA or NHL teams. Those arenas include the FedExForum in Memphis (NBA Grizzlies and Memphis University); the RBC Center that hosts the NC State and the NHL Hurricanes; and the Savvis Center that hosts St. Louis University and the NHL Blues.

With the removal of these outliers, the amount of revenue generated from naming rights contracts decreases dramatically. The annual average amount goes from $1.2 million to $632,143 annually for arenas. This is more than half the amount decreased from having a single use facility over a dual-use facility. This should be contrasted with the NBA Arena naming rights. Considering that some of the arenas are in large markets, such as New York, Chicago, Houston and Los Angeles, the average amount paid by corporations is $2.9 million for the naming rights of NBA facilities. The $2.9-million in naming rights that NBA facilities receive is more than quadruple the amount that single-use college facilities receive in naming rights. Some of the larger cities, such as Los Angeles, Dallas and Atlanta have naming rights greater than $5 million because their arenas are home to both NBA teams and NHL teams. Los Angeles is also a unique situation because the Staples Center is shared by two NBA teams, the Clippers and the Lakers, as well as the NHL Kings.

When comparing the FedExForum in Memphis to other NBA facilities, it receives nearly double the NBA average from the naming rights ($4.5 million annually). Granted, this amount is still less than dual- use professional facilities (such as the Staples Center); it is, however, the highest of any college arena in the country. Based on this information, it is reasonable to assume that if an NBA team was attracted to the new Louisville Arena, naming rights could be sold at the minimum $2.5 million annual average that NBA facilities receive from selling their naming rights, which is more than $1.2 million more annually than the current proposal. The $2.5 million reflects the averages of cities of similar size and marketability to Louisville for an NBA team according to the Sports Economics firm. These cities include Denver, Indianapolis, Memphis, Miami, Orlando and San Antonio. This makes the comparison much more accurate, because it excludes dual-use professional facilities such as the Staples Center in Los Angeles and Philips Arena in Atlanta.

Another additional income source should an NBA team be attracted to Louisville is the dramatic increase in price that the Louisville Arena Authority can sell the luxury suites for. In the NBA, the lowest price for a luxury box in any arena is $128,017 with some going as high as $231,203. To be safe, if the seventy-two Luxury Boxes could be sold on the low-end average of $128,017, $9.2 million in annual revenue could be generated. This is an additional $3.1 million that could be generated over the current single-use facility.

The critical element when considering the construction of the new Louisville Arena and its current proposal of a single-use facility is the fact that there is relatively no “new” money that would be created for the city of Louisville, and those having to pay the debt service, from UofL men's basketball games. Freedom Hall's current capacity of 18,865 is only 3135 seats less than the proposed 22,000-seat arena for the Waterfront site. The average attendance of University of Louisville men's basketball games in Freedom Hall is nearly 100-percent capacity (18,746). As mentioned previously, the current proposal for revenue to pay the debt service to the new arena calls for a $2 per ticket surcharge that will be used for debt service, increasing to $3 per ticket in the sixteenth year of operation. Assuming that the new arena runs 99% capacity for the life of the arena, that translates to only $6270 per game over what could be assessed at Freedom Hall in years one through fifteen and $9405 per game in years sixteen through the remainder of the debt service. If an NBA team was also in the arena, the amount generated by the ticket surcharge would increase dramatically because these games would be new events for the arena, not simply transferring the surcharge from one arena in Louisville to another.

The NBA average attendance in the years 2004-2005 is 17,054 per game over the course of 45 events for the season. If the new Louisville Arena matches the 2004-2005 average for the NBA as a whole, then it can be inferred the arena would generate an additional $1.5 million in revenue annually from the $2 ticket surcharge.

RECOMMENDATIONS

Based on this analysis, an NBA team would actually help benefit the City of Louisville/Jefferson County and would dramatically help the security of meeting the debt service obligations on the proposed Louisville Arena Project. The following chart shows the amount of money for the city of Louisville and the Louisville Arena Authority that would be generated by an NBA team co-anchoring the arena with the University of Louisville.

Table 7: Amount of new revenue generated by a dual-use arena and a single-use facility for the city of Louisville and the Louisville Arena Authority.

	Dual-Use Facility	**Single-Use Facility**	**Difference**
Annual New Benefits			
New Revenues	$24,664,832	$8,523,000	$16,141,832
New ticket surcharge	$1,648,170	$112,860	$1,535,310
Naming Rights	$2,500,000	$1,300,000	$1,200,000
Luxury Box Sales	$9,217,224	$5,400,000	$3,817,224
Concession Sales	$3,800,000	$2,400,000	$1,400,000
Sum 1:			$24,094,366
Costs			
Site Acquisition	$20,000,000	$20,000,000	$0
Arena Construction	$252,400,000	$252,400,000	$0
Transformer Relocation	$69,000,000	$69,000,000	$0
Floodwall	$6,000,000	$6,000,000	$0
Project Management	$7,100,000	$7,100,000	$0
Cost of Bonds	$25,300,000	$25,300,000	$0
Sum 2:	$354,400,000	$354,400,000	$0
Total Benefit (Sum 1-Sum 2):			**$24,094,366**

The literature review reflected statistics and numbers of professional teams and arenas that were in actuality, detrimental to a community. However, the research was lacking in terms of an NBA team serving as a supplemental anchor to an arena project. Also, the numerous articles cover the construction of arenas and stadiums for professional teams already located in the region. If an NBA team located to Louisville/Metro Government there would actually be a net benefit to the Louisville/Jefferson County area because NEW dollars would be brought into the county.

While an NBA team would more than likely have to be privately financed, the money exists in Louisville to do so. Four Fortune 500 companies are headquartered in Louisville and would have the financial backing to purchase an NBA Team. In addition, John Schnattner, the founder of Papa John's Pizza, Hillerich and Bradsby, as well as major manufacturing plants with two Ford Plants and General Electric. UPS's largest hub is located in Louisville and is a potential partner. Private investors such as Attorney J. Bruce Miller have long been after a NBA team, but one of the biggest factors in the past was funding an arena to house the team. This claim was backed up by the Sports Economics consulting firm, who in an independent analysis, stated that Louisville was in the front running for the Grizzlies when they relocated from Canada, the Hornets when they relocated to New Orleans, and the Bobcats when they were awarded to Charlotte. The financial backing to locate a team was in place, but the only factor stopping those moves was the lack of financing for a "NBA ready" facility, not the lack of investors in the franchise or the demographics needed to support an NBA team. The current proposed arena would have to be adequate enough to attract and house an NBA team. As a result, it is recommended that the city of Louisville lawmakers allow the facility to be built and work with private investors to lure an NBA team to the proposed arena.

If an NBA team is attracted, it is helpful to examine how the potential owners of the team could generate revenue to support their business from the arena. The Louisville Arena Authority could negotiate a potential NBA franchise who could use the facility free of charge and keep 95% of ticket revenues. This means the arena would lower the amount it receives from ticket revenue from 10% (Louisville men's basketball games) to 5% (the same it would receive for UofL women's basketball games), thus helping the owners of the NBA team receive more revenue from ticket sales. The average ticket price in 2004-2005 of an NBA team was $44.68, the two dollars for the ticket surcharge, could be subtracted, resulting in a total of $42.68. Based on this amount the arena would still take in $36,393 per event (based on the NBA average of 17,054 per game) over the course of 45 events per year, thus bringing in an additional $ 1.6 to the arena authority from ticket prices alone. It is important to note that this amount is over and above the ticket revenues that were discussed in the analysis because this is a recommendation to lawmakers on how to decide ticket revenues should be divided between a potential NBA team franchise and the Louisville Arena Authority. Add to the $1.6 million amount the $1.5 million from the two-dollar ticket surcharge and the arena could generate an additional $3.1 million in revenue to the Arena Authority from ticket sales alone. The NBA team could keep the final portion of the ticket price for operating revenue and player salaries.

Under the current proposal for a single-use facility, concession revenues, the arena would receive 39% of the first $2-million of gross revenue, 43% of gross revenue from $2 to $3 million and 48 percent of gross revenue above $3 million. Considering this, the arena could lower its revenue percentages and the NBA team, under a contract agreement, could also receive a cut in the concession revenues. With forty-five additional events, the authority could cut the NBA franchise in for a percentage over $2 million, because it is expected that an NBA team would generate $1.4 million in concession sales annually for the forty-five events that the arena would host.

Concerning merchandise sales, the NBA team could be free to keep all revenue from their own merchandise sold in the arena. The Louisville Arena Authority plans on using the current contract that UofL has at Freedom Hall which states that the arena will receive 10 percent of merchandise sales sold during the UofL men's games to a maximum of $40,000 per year. A similar deal at Freedom Hall is going to stay the same at the proposed Louisville Arena. This contract stipulates the arena will receive 12% of all merchandise sales on other events, such as concerts and family shows.

A critical component in allowing the NBA franchise to play in the proposed arena for free is the fact that they could still issue tax-exempt bonds. As pointed out in the Literature Review, a project has to meet a certain set of criteria established by the Federal Government to prove the case for private or public use.   According to Roger Peterman, an attorney who deals daily with the sale of municipal bonds, if the public authority were to allow a private company to use the facility at no cost, then it is still legal for the Louisville Arena Authority and the state of Kentucky to issue tax-exempt bonds from the project. Peterman pointed to an example where public university hospitals rent their space to private practice doctors all the time to retain them in their facility. This is a similar practice to arenas. This would also make the Louisville Arena unique compared to many of its professional counterparts. Facilities such as the Conseco Fieldhouse in Indianapolis, the Great America Ballpark and Cincinnati, and the proposed new stadium for the Colts are examples of privately held sports franchises that have publicly financed stadiums arenas, however, the bonds issued for those facilities were taxable because they did not meet the Federal tax-exempt qualifications, thus costing taxpayers more in debt service payments.

CONCLUSION

In summary, this analysis concluded how a potential NBA team to the Louisville Arena project could help pay the debt service for the Louisville Arena Authority and bring in new revenues to the city of Louisville and Jefferson County. The amount of money that could be generated in the form of new revenue is contrary to the belief and theories to some of the literature that was listed in this study. This can be attributed to a variety of reasons, but one reason is this study is different than the studies examined in the literature review. This study looks at a potential NBA team as a co-anchor, not a main tenant, which means the NBA team would be a subsidy of sorts for UofL and the Louisville Arena Authority. Also, the fact that the arena is going to be built to NBA "standards" helps too, because there is essentially no new construction costs associated with the project.

The results of this study were somewhat inconclusive on whether or not the proposed arena should be constructed as a "single-use" facility of a "dual-use" facility. The results were inconclusive because the proposed Louisville Arena is already going to be constructed to "NBA standards." Therefore, the issue on whether or not the Arena Authority should spend the extra money to build a dual-use facility is irrelevant in this study because the arena proposed and agreed upon is going to be constructed to "NBA standards" anyways.

This study is able to answer the question had the proposed "single-use" arena not met the "NBA/dual-use standards" then the research showed that it would be beneficial to the Louisville Arena Authority to construct the arena to "NBA standards" as long as the additional cost in bonds and construction was not more than the expected $24 million in new revenues that an NBA team would generate. This decision would also hinge on the fact that the Louisville Arena Authority is confident they could land an NBA team during the early years of the arena, otherwise, the additional cost of the dual purpose facility would be completely wasted.

The study was conclusive, however, if an NBA team could generate new money for the city of Louisville and the Louisville Arena Authority. Through the studies of revenue and economic impacts of NBA teams on cities with comparable market sizes to the city of Louisville, the analysis (summarized in Table 7) showed the amount of new revenue generated by a potential NBA team could not only bring in new revenue to the city of Louisville, but help address the debt service payment problems that the Louisville Arena Authority could face by not having enough events at the arena. The fact that an NBA team could generate in excess of $24 million annually over and above the current proposed single-use facility supports the idea that an NBA is a financially viable alternative to subsidizing the arena.

This results of this study also explained why it is critical that the Louisville Arena Authority rent the new arena to any potential new NBA team for free, however. This will allow the Louisville Arena Authority to continue to issue its tax-exempt bonds, which will hold the bond financing cost down. If the Arena authority were to require any type of rent for the NBA team, the $24 million in additional revenue could be reduced because the that debt service payments would cost more.

Also, there are the unquantifiable facts mentioned in the literature review and commonly spoke of, but remain inconclusive in this study. For instance, the impression that the arena located on the waterfront has on a potential visitor watching an NBA game on television, or the civic pride that would be instilled in the project and potential NBA team to cheer for. Communities that support professional sports franchises, whether they are baseball, hockey, football, NASCAR or the NBA are believed to derive a significant benefit from the national and sometimes international focus and media attention created by that franchise. The advertising that comes with the NBA events, along with the media attention, creates awareness and potential “goodwill” in the community that cannot be quantified until after the project is completed. This translates into economic benefits that are subtle, but meaningful to the entire city of Louisville and

Jefferson County community, not to mention all of Kentucky. A University of Louisville Basketball game might draw on fans from across Jefferson and surrounding counties, an NBA team could cross the states borders surrounding Louisville, as well as Kentucky as a whole. These results are limited, however, until after the project is completed and surveys can be done on the true impact of these theories.

This study will help educate Louisville Metro Council Members, the members of the Kentucky General Assembly from Louisville and mayor Jerry Abramson in deciding how an NBA team could be beneficial in helping meet debt service obligations by providing additional revenues and constant dates to fill the seats of the arena. Also, this study made suggestions on how to maximize the potential of the Waterfront site and how creating incentives for an NBA team would help generate new revenues for the city of Louisville/Jefferson County

While this study does not answer the question whether or not sports arenas are poor investments for communities, it does conclude that “dual-use” sports facilities are better investments than “single-use” facilities. It concludes that an NBA team is a profitable co-anchor of a sports arena. A future research study that would be interesting is to compare “single-use” professional arenas to that of “dual-use” professional/collegiate facilities to see if a single-use professional arena is more profitable than a single-use college facility. This study simply examined a single-use collegiate arena to a dual-use professional/collegiate arena.

In closing, the Louisville Arena Authority and Louisville/Jefferson County lawmakers should do their part in helping to attract an NBA team. This study concluded, based on research by independent consultants, that Louisville would be in the front running to land an NBA team, especially now that an “NBA ready” arena is going to be constructed in Louisville. The financial impact that an NBA team could provide to the city of Louisville and the additional guaranteed dates to the arena’s annual schedule are hard to ignore. All of this revenue and exposure generates a net benefit to the city of Louisville and the Louisville Arena Authority in terms of exposure, civic pride and revenues. This new revenue could be used to help meet the debt service obligations and reduce the burden on the taxpayers of city of Louisville and the Commonwealth of Kentucky.

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