

Case: 2008-A Case Study of the Pittsburgh Penguins Mellon Arena Dilemma

Date: June 1, 2008

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Author: Nick Hodge

Acknowledgement: Dr. Norm O'Reilly

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SPAD 3027 – Advanced Sport Marketing
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By: Nick Hodge
PITTSBURGH PENGUINS: MELLON ARENA DILEMMA

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FEBRUARY 21, 2007 – PITTSBURGH, PENNSYLVANIA

Mario Lemieux and the rest of the Pittsburgh Penguins ownership group have compiled all the pertinent information needed to render a decision as to the future of the NHL's Penguins in Pittsburgh. It is clear that each party involved has very differing motivations as demonstrated by the public attempt to sell the franchise on numerous occasions. The current issue revolves around the lease at the Mellon Arena (formerly "Igloo" Civic Center), which is due to be renewed in one week, on February 28. However, the Penguins ownership is in agreement that their facility must be severely improved or replaced, likely somewhere nicer than the outskirts of Pittsburgh. There are a few options that are at the disposal of Lemieux and company, therefore they have only one week to make a decision regarding the Penguins' future home arena. If ownership does not decide to renew the lease at Mellon Arena they must have another option in place for the beginning of the 2007-2008 NHL Season. Ideally, they will seek an option that will be the most viable for the successful future of the franchise, which may include an upgraded arena in Pittsburgh or the relocation of the franchise. The Penguins must consider the Pittsburgh hockey market, and moreover their ability to sufficiently fund the construction of a new arena, if necessary. There are numerous means by which to accomplish this, however their attempt to obtain public financing has only yielded a proportional payment of the very expensive cost of building of a new arena in Pittsburgh. A week before the decision must be made, Lemieux and company are certain about one thing only; their home arena must improve drastically in order to sustain the franchise into the future.

HISTORY: MELLON ARENA

Mellon Arena was built in 1961 and named the Pittsburgh Civic Center. Not until 1967 was there an actual professional sports franchise playing there, but when the NHL decided to expand its 6-team league the Pittsburgh Penguins were born. The Civic Center was a state-of-the-art facility with a partially retractable roof, and highly contributed to Pittsburgh's attraction of an NHL expansion franchise. However, the facilities original purpose was a venue for the Pittsburgh Civic Light Opera



which left after only one year of sharing with the Penguins. Dubbed the "Igloo" for the Pittsburgh Penguins, the franchise flourished in its highly revered stadium. It was not long before renovations were necessary to expand seating (both standard and luxury) and install a new score clock. Expansion of seating from 12,000 to 17,000 occurred in 1975 and 1993, and in 1995 a new score clock was installed that effectively hindered the roof's ability to retract. Today, the Mellon Arena is the oldest rink in the NHL and suffers from a very poor location; on the outskirts of Pittsburgh. Recent developments have taken place in the downtown area, while

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residential housing has expanded to the areas surrounding Mellon Arena. On top of that, NHL players have reported that the visitor's dressing room facilities are not up to NHL standards, as seen in the following video link.

[VIDEO](#)

Mellon Arena has also been host to several high profile events over its forty-six year existence. One of the most successful events held at Mellon Arena was the 1990 NHL All Star Game, where Penguins Captain Mario Lemieux was awarded the most valuable player for the third time in his career after scoring four (4) goals en route to winning the game. Many of the high profile events took place at a time before the advent of fully-loaded sport facilities that began popping up in major cities across the United States; consisting of luxury boxes, restaurants, shopping areas and even hotel accommodations. These new facilities were built state-of-the-art in an aim to expand franchise revenue sources due to the decline in public financing. During the 1970s and 1980s professional sports franchises were constantly relocating which forced government officials to agree to fund arena projects in order to retain or obtain teams. The problem with this was that professional sports leagues began over expanding to the point that teams could no longer threaten to relocate because of the small availability of cities that could sustain a professional franchise. Therefore, the public funding stopped and teams began searching for new revenue sources to fund their team's facilities; namely luxury seating, naming rights and personal seat licenses. As a result of these emerging sport facility trends, Mellon Arena began attracting fewer high-profile events seemingly because it has become one of the most superfluous arenas in professional sports. For instance, during the 1970s the Civic Center attracted many high-profile concerts like Led Zeppelin in 1970 and 1975 (two concerts in '75) and Alice Cooper in 1971. Also, from 1978 to 1983 it was host to six NCAA Atlantic Ten Conference Men's Basketball Tournaments, but was replaced by the more modern Peterson Event Center (home of the University of Pittsburgh). In 1995, a film called Sudden Death starring Jean Claude Dan Damme was shot in the Igloo, as well. Since then, there has been little foot traffic unrelated to hockey at Mellon Arena. Although, the WWE still frequents the aging facility for events like the 2007 WWE Armageddon event. It has become fairly evident that Mellon Arena is losing its desirability, likely due to the many more modern alternatives for large concerts and events. It is no longer as desirable of a facility as it was when it was built in the early 1960s. (Mellon Arena, 2007)

In terms of naming rights, the Civic Center was one of the last in the NHL to convert to a sponsor-named facility. This took place in 1999, during a losing time when the club was desperate for an infusion of cash. A local money management firm was the answer to the Penguin prayers as Mellon Financial agreed to purchase the naming rights for the Igloo for \$18 million over ten years (\$1.8 million per year). Mellon Arena's naming rights are effective until 2009. As seen below, teams across the NHL have used naming rights of different lengths and value in an effort to upgrade or rebuild. Other franchises have used different means of meeting stadium funding requirements.

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	Naming Rights	
	Annual Value	Total Value
1999 Phillips Arena Atlanta, GA	\$9.3 Million (20 yrs.)	\$185 Million
2000 Saavis Center St. Louis, MO	\$4.2 Million (20 yrs.)	\$83 Million
2006 Honda Center Anaheim, CA	\$4 Million (15 yrs.)	\$60 Million
2007 Prudential Center Newark, NJ	\$5.27 Million (20 yrs.)	\$105.3 Million
Luxury Seating		
1992 America West Phoenix, AZ	\$3,250 per Seat per Year	
1999 Air Canada Center Toronto, ON	\$2,500 per Seat per Year	
Personal Seat License (PSL)		
2000 Nationwide Arena Columbus, OH	\$2,375 per Seat (average)	\$28.5 Million

Howard & Crompton (2004)

During the past few years there have been considerable questions surrounding the future of the Penguins franchise in Pittsburgh. This was mainly a product of the city's inability to fund a new arena. On January 19, 2006 the Pittsburgh Post-Gazette published the announcement from Mario Lemieux and the other Penguin ownership, which stated that the Penguins were for sale and that certain bidders were in place with interest in acquiring the team. After twelve months of deliberation, filled with failed bids from the likes of Jim Balsillie and William DelBiaggio, the Penguins were preparing for the construction of their new arena in downtown Pittsburgh. Throughout 2006, Penguin ownership and the Pittsburgh City council worked together for a casino bid which would provide funding for a new arena. The proposed arena was to be built downtown Pittsburgh, with a functioning casino inside the arena complex. Clearly, with this massive revenue source within the arena, the Penguins would be able to fund the new facility more easily. However, in December 2006 the casino bid from Isle of Capri failed. This was the only casino license awarded by the Pennsylvania Gaming Control Board to the City of Pittsburgh, thus ending any chance that the Penguins would have of attracting a new arena complex funded through a casino-licensed construction.

HISTORY: PITTSBURGH PENGUINS



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After the Stanley Cup was awarded to the Toronto Maple Leafs in 1967, the NHL decided to expand its six-team league in an aim to expand its hockey market throughout North America; namely the United States. Six teams were created in the expansion, which included the Los Angeles Kings, California Seals, Minnesota North Stars, Philadelphia Flyers, St. Louis Blues and Pittsburgh Penguins. The Penguins are arguably the most successful of these teams, but it did not start out that way. During the late 1960s and first half of the 1970s the Penguins were atrocious and played the bottom-feeder role with the California Seals for most of their first decade of play. The team even came close to foreclosure in 1975 as pressure from creditors threatened the sale of the team. Likely because of their improved play during the 1975 season, a group of investors led by Wren Blair saved the team from bankruptcy. With new life the Penguins marched on, gaining respect throughout the league with their improved play. Players like Rick Kehoe (third all-time in team scoring), Pete Mohovolich and Peter Lee led the Penguins to six playoff appearances in seven seasons during the late-1970s to early-1980s.

The team then hit a wall, missing the playoffs six seasons in a row from 1982 to 1988, but the good news was that they would receive the first overall draft pick in 1984 due to their awful play. This would prove to be the most beneficial draft pick for the franchise as the Penguins drafted Mario Lemieux. Lemieux flourished in his new role as savior, leading Pittsburgh to the Division Finals in 1989 and although they lost to Philadelphia, Lemieux posted 199 points (85 goals, 114 assists) unmatched by anyone in history besides Wayne Gretzky. Then in 1991 the Pittsburgh Penguins finally earned their first Stanley Cup Championship by defeating the North Stars in six games. This incredible season was matched the following season as the Penguins won their second Stanley Cup in as many years. Although they have not won a Stanley Cup since, the Penguins continued to play in the upper-tier of the league making the playoffs every year during the 1990s. During this time the Penguins had two of the most talented NHL players of all time playing together: Mario Lemieux and Jaramir Jagr. Jagr, drafted fifth overall in 1990, has experienced enormous success winning two Stanley Cups, an Olympic Gold Medal and now captains one of the premier teams in the NHL, the New York Rangers. These two superstars provided a very unique record for the Penguins as they are the only team to have two sixty-goal scorers in one season; 1995-96 Lemieux 69 goals; Jagr 62 goals. This is one of the most impressive records that will likely never be matched. Since the end of the 1990s the Penguins have had no post-season appearances, however there are several bright spots coming in the form of young stars Marc-André Fleury, Evgeni Malkin and Sidney Crosby. These three players are touted as being the future of Canadian and Russian hockey, which exemplifies the magnitude of the talent level in Pittsburgh today. Crosby appears to be the next Lemieux as he recorded 102 points in his first season (2005-06), making him the youngest player to score 100 points in NHL history. Another bright star, Malkin, is currently playing in his first season and is on pace for an 85-point rookie season. The young core group of highly talented players is making the future look very bright for a struggling Penguin franchise, and as long as this talent can be retained the winning ways are inevitable.

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Over this time the Penguins franchise value has fluctuated erratically (Forbes, 2006), which is likely to do with the team's poor performance since 1999. As seen in below, the franchises value declined quite violently during the early 2000s, when the team struggled most. However, after the lockout season and genius draft selections the Penguins seem to be regaining its once league-leading value. Playing at Mellon Arena does not help the situation as the team is constantly infusing the building with capital repair funding, which decreases the team's overall value. Thus, a new arena is likely to vastly improve team value and provide a strong financial future for the Penguins.

KEY PLAYERS: MARIO LEMIEUX

Mario Lemieux is a Pittsburgh Penguin legend. During his seventeen-year career, Mario tallied 690 goals and 1033 assists, leading his teams to two Stanley Cup Championships, an Olympic Gold Medal and two World Cups of Hockey. Lemieux is known as the man who made the Penguins great, however, he will forever be known in Pittsburgh as the man who saved the



team from foreclosure or relocation in 1999. The Penguins were in a situation where bankruptcy was inevitable, but Lemieux saved the day when he purchased majority ownership for \$99 million. Lemieux dedicated himself to improving the franchise in all aspects, evident through more than just draft picks. By August 2005 the Pittsburgh Post-Gazette reported that the "Penguins had fully paid the principal it owed to each of its creditors...both secured and unsecured." It is evident that Lemieux is dedicated to the prosperous future of the franchise and is known to do whatever it takes to retain

the Penguins in Pittsburgh. This is not to say that he is pleased with the current Mellon Arena situation, but something must be done to improve the franchises value which is currently 28th in the NHL (Forbes, 2006). It is important to understand that Mario has a large investment in the Penguins and will do what it takes to maintain his business interests as well. As stated by Lemieux: "If there is an opportunity to keep the Penguins in Pittsburgh [by building a new arena] that is the optimal situation...if not, other alternatives will need to be pursued." (Lemieux Press Conference, 2007)

KEY PLAYERS: RON BURKLE

Ron Burkle is a California-based businessman who made his fortune as an investor. For instance, Burkle started out in the supermarket industry and is now a renowned investor in the retail, manufacturing and distribution industries. He is most well-known for founding The

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Yucaipa Companies, a California-based private equity firm, in 1986. Although Burkle is a businessman, his \$3.5 billion worth makes him more like a celebrity. This is evident through his various high-profile celebrity friends like Michael Jackson, Bill Clinton and Mario Lemieux. Burkle's involvement with the Pittsburgh Penguins began in 1999, when he and Lemieux invested the necessary funds to save the Penguins from going into bankruptcy. His exact ownership share in the franchise is unknown, but he is definitely the second most influential decision-maker in the arena lease renewal decision. It is important to note that Burkle is a return-oriented investor, whose main goal in the arena decision is a positive financial return. Therefore, his best-case scenario is if the Penguins value increases or is likely to increase very soon, so that his investment is not seen as a waste.

KEY PLAYERS: WILLIAM DELBIAGGIO III

William DelBiaggio III is another California-based businessman and has a very interesting involvement in the arena decision process. DelBiaggio is the head of a banking empire that has over \$1 billion in assets and is the founder of a firm in California that provides capital investments for high-tech ventures. He is part owner of the NHL's San Jose Sharks, as well as close friend and golf partner of Mario Lemieux. DelBiaggio has been interested in purchasing an NHL franchise for many years, which is evident by his \$120 million offer to purchase the Penguins in 2005. This deal fell through when Pittsburgh was awarded the first overall draft which was undoubtedly Sidney Crosby, a young star touted to be the next Wayne Gretzky. During this time, the Anschutz Entertainment Group (AEG), which is highly involved in the sport facility investments, was in the process of building a new state-of-the-art sports arena named the Sprint Center in Kansas City, Missouri. AEG and DelBiaggio realized their congruent goals of operating an arena and owning an NHL franchise, which led to a partnership in November 2006. "In November, AEG entered into an agreement with Mr. Del Biaggio to operate an NHL team at the Sprint Center [if he could relocate a team to Kansas City]. He also has an option to join the arena's management team." (Pittsburgh Post-Gazette, 2006) Ideally DelBiaggio felt that the Penguins were the only team in need of a new home, and this led to a \$200 million offer to purchase the franchise should the team be forced to leave Pittsburgh. Therefore, a major implication of relocating the Penguins to Kansas City is the fact that DelBiaggio will have the right to purchase the team at the stated offer of \$200 million. Mr. DelBiaggio is ultimately investing in an NHL franchise for his own financial benefit, although he does have some other interests involved, including his prior demonstration of NHL interest (evident by his investment in the Sharks) and his close friendship with current Penguins owner Mario Lemieux.

HOCKEY MARKETS: PITTSBURGH, PENNSYLVANIA

Approaching their fortieth season as an NHL franchise, the Penguins are in a very peculiar position where their future in Pittsburgh is not certain. This is in no way an issue of fan or community support, but rather an issue regarding the dismal arena that has long been due for

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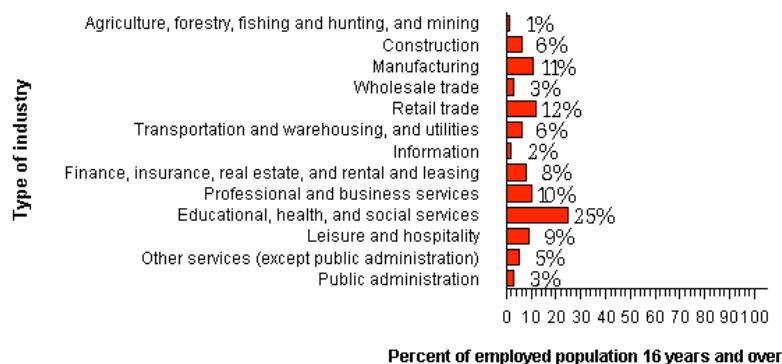
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replacement. Local fans have been highly supportive of the Penguins over the history of the franchise and this is one of the primary reasons why the franchise has yet to relocate. Throughout the Penguins' existence there have been fluctuating attendance numbers although they have fortunately never experienced an average capacity below 70%. The record low in attendance took place during the 2003-04 season, when the Penguins were a struggling franchise with no marquee players through which to sell the games. However, there are many bright spots on which to focus. For instance, during the 1990s there were only two seasons when capacity was below 95% for the season. (Mellon Arena, 2007) The Pittsburgh fans have been in constant support of their franchise, and increased such support during periods when the team performed at a high level. Thirty-two sellout games during the 1991-92 season is evidence of this, as this was the same year the Penguins repeated as Stanley Cup Champions. The following outlines the demographics of the Pittsburgh area, along with other information related to the local hockey market.

Pittsburgh is a relatively small city (population: 324,732) to host three major league sports teams: Pirates (MLB), Steelers (NFL) and Penguins (NHL). In comparison to a city like Toronto, that also houses three professional sports teams, the population is much greater at over 2.5 million people. This leads one to believe that it is much more difficult to compete for disposable income in such a small market housing so many professional sports franchises. In Pittsburgh there is also a very low median household income of \$42,796, which would likely create an even more difficult sell for an NHL franchise because of the low disposable income.

Employment by Industry in Pittsburgh, PA MSA in 2003



Source: American Community Survey, 2003

Note: The Professional and business services category includes the following industries: Professional, scientific, management, administrative, and waste management services. The Leisure and hospitality category includes the following industries: Arts, entertainment, recreation, accommodation, and food services

There is also a very high population of married families at 33.5%, with the median age being just under 36 years of age. (MoneyCNN.com, 2006) This fairly young, married population is a product of a very blue-collar, working class area, evident by the "Employment by Industry" graph shown below. The

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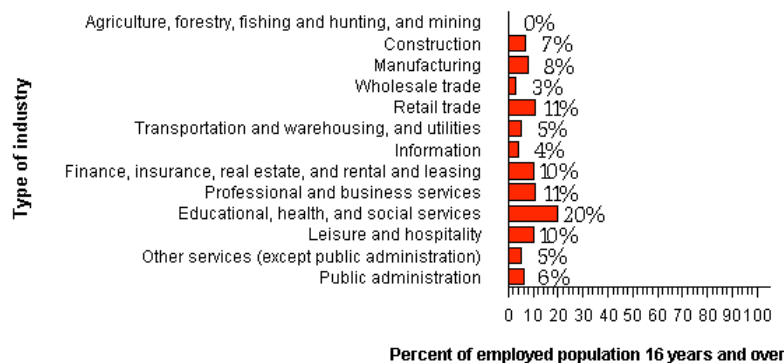
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primary conclusion from this chart is the 29% of the population working blue-collar jobs (Agriculture 1%, Construction 6%, Manufacturing 11%, Transportation 6% & Other Services 5%) in the Pittsburgh area. (U.S. Census, 2006) These findings lead one to believe that with the escalating price of tickets, that the Penguins are likely in a difficult situation in regards to generating gate revenues. However, it seems as though this is not the case for the Penguins who are currently experiencing record attendance levels. For instance, since the threat of franchise relocation the Pittsburgh fans have responded by selling out twenty-two (22) of the team's last thirty (30) games. This has highly contributed to the thirty sellouts (total) for the 2006-07 regular season; fourth most in franchise history (Sports Business News, 2006). Another very potential cause of this support is due to the high performance of young stars Sidney Crosby and Evgeni Malkin, who are dominating the league's statistical categories much like Lemieux and Jagr did in the 1990s. In fact, the Mellon Arena has not been host to as many sellouts as 2006-07 since the 1992-93 season, when Lemieux and Jagr were playing together. Thus, an educated inference would be that the Penguin fans are in support of successful teams, evident by their lack of attendance during the losing years (1999-2005) in which they did not reach the postseason. It appears as though the Penguins will reach the postseason this year, which will likely increase the interest of local fans wishing to be a part of a Stanley Cup run.

HOCKEY MARKETS: KANSAS CITY, MISSOURI

Kansas City is a growing area with job growth increasing by 1.6%, but much like Pittsburgh it is a blue-collar-dominated city. Evidence of this is presented in the "Employment by Industry" graph shown below, which shows that 25% of the population work blue-collar jobs

Employment by Industry in Kansas City city, Missouri in 2003



Source: American Community Survey, 2003

Note: The Professional and business services category includes the following industries: Professional, scientific, management, administrative, and waste management services. The Leisure and hospitality category includes the following industries: Arts, entertainment, recreation, accommodation, and food services

(Agriculture 7%,

8%, Transportation 5% & Other Services 5%) much like in Pittsburgh. (U.S. Census, 2006)

0%, Construction Manufacturing

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Kansas City is a larger city than Pittsburgh with a population of 451,717 however the demographic composition is much the same. There is a very large middle age population evident by the median age of 34 years, as well as a large percentage of married families (42%). The area that makes Kansas City a superior city to house a professional sports franchise is the higher disposable income than Pittsburgh, due to the higher median household income of \$51,308. (MoneyCNN.com, 2006) These findings certainly lead one to believe that Kansas City would be a feasible city for the Penguins' possible relocation, especially with the recent construction of the state-of-the-art Sprint Center which would be available to the Penguins. Moreover, this new arena is a means for Kansas City to attract the wavering franchise, and the owners of the Sprint Center have stated that the arena would be available to the Penguins at no cost should they decide to relocate. However, it remains essential that there be a strong (either established or potential) hockey market in order for the relocation to take place.

During the early 1970s Kansas was awarded an expansion team but it was very short-lived. The Kansas City Scouts entered the NHL as an expansion team in 1974 with the Washington Capitals, and showed no success during its short two-year existence. With thirty teams between the NHL and WHL, this was a difficult time for an expansion team as the talent pool was very thin. The Scouts only lasted two seasons, compiling a record of 27 wins, 110 losses and 23 ties, before the team was relocated to Denver. During that same time the Washington Capitals had an even worse record, however their strong fan avidity allowed them to retain their franchise. Kansas City, on the other hand, had dismal attendance during their two seasons, and even in a last ditch effort to keep the franchise the Scouts fell short in their attempt at selling 8,000 season ticket packages. The franchise ultimately relocated once again, moving from Denver to New Jersey. Kansas City was an utter failure as an NHL franchise host due to its mediocre attendance, poor facility and even worse on-ice talent. These issues may all have been reciprocal of each other as the low attendance may have been a result of an untalented team playing in a superfluous venue. Therefore, perhaps the relocation of the Penguins would be different. A brand new Sprint Center in the heart of the city, along with the extremely talented Penguins squad may be the recipe for success in a market like Kansas City.

NEXT STEP

Mario Lemieux and Ron Burkle are sitting in Lemieux's home office preparing to make a decision regarding the future of the Penguins home arena. The two owners are deliberating on three options that they feel will provide a viable future for the Penguins franchise. They must make a decision within the following week to ensure that they have an arena from which to play come the start of the 2007-08 NHL season. At the same time the owners must make a concise decision that will provide the Penguins with a viable arena and market within which to play for years to come. Ideally, this decision will grant the team the opportunity to improve its value and reputation among NHL franchises. The following information regarding each option has been

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compiled by the Penguins franchise and it is now the duty of the ownership team to make the appropriate decision for the team.

A) Renew the Lease at Mellon Arena

An option that may be employed, should all others run dry, is to renew the lease at Mellon Arena. This would involve a short-term fix because at the end of the 2009 season the Mellon Financial naming rights will expire. Due to the large expenses incurred by the aging facility, the Penguins would be responsible for seeking a new corporate sponsor as an annual funding source. Moreover, the ideal situation would be to renovate the arena in an aim to improve the aesthetics as much as possible. It is evident that this will come at a large expense to the team, thus creating a need for more revenue sources over the immediate future. There are also the ownership parties, whose motivations must be accounted for. Are Mario Lemieux and Bob Burkle willing to stay at Mellon Arena and likely infuse the franchise with funds? If so, for how long? Furthermore, how will the Penguin fans react to this situation? Do they feel like they are cheering for a Class-A franchise? Pittsburgh is lucky to have such a dedicated hockey fan base; therefore it is important that the fans' interests be accounted for as well.

B) Relocate the Franchise to Kansas City, Missouri

"The [Kansas City] Scouts were a God-awful team. We felt like we were never given a chance to have it succeed here. It's a new sport now, and we're a new city," said Mr. Paul McGannon, who for years has led a grass roots effort to give the NHL a second chance in Kansas City. (Post-Gazette, 2006) Although the Kansas City Scouts were unsuccessful in maintaining a presence in the league, there has been large interest from the community regarding relocating a struggling team to their brand new arena. Sprint Center is a state-of-the-art facility that will be available to the Penguins free of charge, while receiving 50% of stadium revenues should they decide to relocate. The arena is located in downtown Kansas City, which is a booming area and much more viable than the current location of the Mellon Arena. As well, the Penguins would not need to share the facility with any other professional sport franchises, giving the team a large degree of influence over decision making. This is also a very appealing opportunity for the Penguins due to the high cost and time consumption involved in obtaining revenue to self-fund a new facility. Once again, there are many parties whose motivations must be accounted for if this alternative is chosen. For instance, it can be assumed that very few Penguin fans will be retained



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after relocation. Furthermore, will there be a sufficient fan base to support the franchise in Kansas City? If not, how long will it take to build the fan base? Perhaps the most profound implication of relocating is in regards to ownership. William DelBiaggio will have the right to purchase the franchise at a stated price of \$200 Million if it relocates to Kansas City. Therefore, will the ownership group be willing to make this drastic decision? It is essential that all of the possible implications be addressed before the Penguins can be relocated.

C) Raise Funds to Build a New Arena in Pittsburgh

The final option is seemingly the best option for this scenario at first glance. By retaining the Penguins in Pittsburgh, Lemieux and company will remove a great deal of rebuilding that will be necessary if the franchise moves. The Penguins would lose its history, as was exemplified by Hartford, Winnipeg and Quebec's relocations. The implications would include building a new brand, a new fan base and a new history, which are very difficult to justify when the Penguins already possess these characteristics. Pittsburgh is full of great fans who have stepped up for their troubled franchise by selling out numerous games since the threat of relocation has surfaced. The proposed arena's location is much more viable as it will be located in the expanding downtown area. This will provide great benefits to the city's economy by driving people downtown, while also providing an adequate location for the Penguins who are in desperate need for a larger venue. Moreover, this new arena will contribute to a growing commercial area in Pittsburgh, providing a very aesthetically pleasing facility. The capacity of the proposed arena is 18,500 seats, a vast improvement over Mellon Arena's capacity of under 17,000 seats. Clearly, this will result in increased revenue from ticket sales, while also providing more options for luxury seating and corporate box seating. It seems like an open and shut decision, although there are many difficult implications surrounding this decision.

There are profound issues surrounding the construction of a new arena; namely generating the funds necessary to build it. The total cost of the proposed arena is \$290 Million, which is an enormous investment for a franchise to risk. Fortunately, due to a strong relationship made with the Pennsylvania State Government during the Casino bid, a significant portion of the new arena will be publicly funded. The State has expressed that it would invest \$164 Million in a new arena if the Penguins organization could generate the remaining \$126 Million over a thirty year lease (\$4.2 Million per year). Moreover, the Penguins would need to come up with \$500,000 upfront for the construction of a new parking lot adjacent to the arena, which was a prerequisite of the public financing.

Therefore, in order for the Penguins to even consider this option there must be viable funding sources in place to ensure a secure future for the franchise. Based on facility financing options commonly used by professional sports franchises, a solution should be rendered that addresses both the long-term annual lease payment of \$4.2 Million and the one-time cost of \$500,000 to improve the local infrastructure. Several questions must be addressed regarding the implications of this decision. For instance, is it viable to assume that the Penguins could

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generate the revenue needed to finance the new arena? Consider revenue sources used in the development of fully-loaded or state-of-the-art facilities by other professional sports franchises to fund their new capital developments. It is also important to understand whether this option will be in the best interest of the ownership group making the decision. Are they motivated to infuse the franchise with added capital or effort for the following thirty years? Thus, uncover the various implications and make assumptions as necessary in order to render the optimal decision for all parties involved.

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