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Detroit, state should've challenged Wings arena plan



By Christopher Douglas

The Detroit Red Wings are building a new arena and have released a drawing of the construction plan. Olympia Development -- a company owned by Red Wings owner Mike Ilitch -- persuaded state politicians to spend \$260 million in taxes for this \$650 million project. The arena will cost almost

four times more than the construction of Joe Louis Arena did and will be one of the National Hockey League's most expensive ever. But it didn't have to be this way -- the Red Wings and Ilitch had no real leverage over the politicians who voted in favor of this corporate welfare.

In addition to the \$260 million state subsidy, Olympia Development struck extra deals with the city of Detroit. The company will no longer owe the city a disputed \$50 million to \$80 million in television revenue. It will also gain \$11 million annually by no longer sharing ticket and concession revenue with the city and keeping all naming rights revenue. When asked about the negotiations between the city of Detroit and Olympia about the revenue, Councilman Gabe Leland said, "It just didn't seem like (Olympia representatives) were willing to budge."

In reality, Olympia had little leverage with the city. Professional sports franchises often extract special favors by threatening to move. But given the market realities of the NHL, the Red Wings could not have made a credible threat to move.

An NHL franchise is almost completely dependent on local revenue to turn a profit. The National Football League gives each team an equal share of its annual \$7 billion in media-based revenue, giving each team more than \$200 million each year. In contrast, the NHL shares only about \$200 million each year, netting each team just \$6.7 million annually. The NHL does not share any ticket revenue either (40 percent of

NFL ticket revenue is shared). This means that NHL teams need to be in large hockey markets to be profitable.

But could the iconic Red Wings be profitable somewhere else? Probably not. It is likely that the current NHL franchises are in the largest available hockey markets. The Red Wings would thus have to move to a market smaller than the least-valuable franchise -- the \$175 million Columbus Blue Jackets. That team generates \$69 million in annual revenue, whereas the Red Wings, estimated to be worth \$470 million, generate \$96 million in revenue annually. Leaving what some estimate to be the NHL's most valuable media market could cost the Red Wings at least \$27 million in revenue per year. The total value of the franchise would obviously suffer.

A Red Wings move to the suburbs might be a more serious concern for Detroit. In the mid-1970s, then-Red Wings owner Bruce Norris threatened just that. But this threat doesn't hold much water either, given that 10 percent of Red Wings season ticket holders are Canadians. The Canadian cities that likely produce these fans have a combined population that almost matches Detroit's. Moving farther away from the hockey market that centers near Detroit would be a risky business proposition.

The state and city of Detroit should have negotiated with Olympia Development from a position of strength. They could have refused to provide subsidies, and the Red Wings would have likely stayed in Detroit. Olympia would have just needed to do what most every other business needs to do to expand: raise capital from private sources. Instead, politicians caved to nearly the entire list of Olympia's demands, needlessly costing taxpayers tens of millions of dollars per year.

Christopher Douglas is an associate professor of economics at the University of Michigan-Flint and a member of the Board of Scholars at the Mackinac Center for Public Policy, a research and educational institute in Midland.