

Paulson's soccer guarantee won't bail out Portland

by Helen Jung and Ted Sickinger, The Oregonian
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Bruce Ely/The Oregonian Portland Mayor Sam Adams unfurls a banner in March when the city and Merritt Paulson, owner and president of the Portland Timbers and Portland Beavers announced Major League Soccer was coming to Portland.

In early March, Merritt Paulson, owner of the Portland Beavers and Portland Timbers, proclaimed to a packed City Council meeting that taxpayers were getting an "exceptionally fair deal" when it came to financing new and refurbished baseball and soccer stadiums.

Not only would the Paulson family buy a Major League Soccer franchise, throw in \$12.5 million for construction costs and pick up cost overruns, but the family would guarantee bonds issued for the deal.



If only the deal were that tidy.

Paulson has indeed guaranteed rent payments on the stadiums and estimated ticket taxes from the venues for the next 25 years -- even if his teams fail.

But much of that money will go toward paying the existing \$28.5 million in debt on the PGE Park renovation from 2001 -- as Beavers baseball and Timbers soccer revenues do today.

That would leave far less to cover debt payments on the new stadium bonds. In fact, the city will have to rely on revenue from Portland Trail Blazers ticket taxes and parking proceeds -- or, if those fail, the general fund -- to cover about \$20 million in baseball and soccer bonds.

In the end, the extra income that the city would generate by renovating PGE Park for soccer and building a new baseball stadium would cover about a sixth of the \$64.5 million in new debt that it plans to take on to fund the deal, according to city projections.

The Paulson family's limited guarantee isn't what some members of the task force appointed by the city to evaluate Major League Soccer in Portland had in mind.

"We're talking about an overall expansion of the city's indebtedness in order to accommodate these projects," said Conrad Myers, a business turnaround consultant and the task force's finance subcommittee chairman. "I would prefer personally to see the guarantees cover the full extent to which the city increases its indebtedness."

Paulson responds that his family's guarantee is "unprecedented" and a "major concession."

And it has become such an important selling point for the deal that city officials haven't bothered scrutinizing their own consultant's \$39,000 report on the teams' financial viability, which is peppered with basic math errors.

"We would certainly be digging into the numbers a little harder if we had more risk and exposure," said David Logsdon, manager of the city's spectator facilities. But with a personal guarantee from the Paulson family, "it's less important to the city how we scrub through all the numbers."

What's guaranteed?

Mayor Sam Adams and city Commissioner Randy Leonard have made much of the hard bargain they drove for taxpayers and the guarantee they got from the Paulson family.

Here's the debt the city will take on: \$31 million in bonds through the Spectator Facilities Fund, an entity that collects ticket taxes and parking revenue from events in the Rose Quarter and PGE Park; \$18.5 million in bonds to be repaid by property taxes from the Oregon Convention Center urban renewal district; and \$15 million in bonds to be paid from an undetermined city-backed source.

Here's Paulson's guarantee: Rent from the two stadiums and the projected revenue from a 7 percent ticket tax on all events at the stadiums. In 2011, when Major League Soccer begins, that amounts to about \$2.5 million. It would rise to \$4.5 million by 2035.

In today's dollars, the value of those payments is about \$31 million. That explains Paulson's assertion that he's guaranteeing the city bonds -- or at least the Spectator Fund portion.

But the Spectator Fund also is responsible for making debt payments on earlier projects, including the Rose Quarter parking garages and the 2001 renovation of PGE Park. The city still needs Timbers and Beavers revenue to cover those payments of the existing debt in addition to the new debt.

Paulson doesn't consider that part of his family's guarantee.

"This is about the new debt ... as it pertains to the personal guarantee," he said, adding that the old debt was incurred before he came to Portland.

When the existing debt is included, Paulson's guarantee to the city would cover only a third of the Spectator Fund debt. The city would still repay the balance with Blazers basketball ticket taxes and Rose Quarter parking revenues -- or the general fund if need be.

And when the rest of the city bond debt is added, Paulson's guarantees and parking revenue would cover only a sixth of the city's costs for the new stadiums.

Leonard says that the Blazers revenue is safe and that the Spectator Fund's operating reserve insulates the city's general fund from any risk. He adds that the fund's revenues are greater than expenses, leaving the city with borrowing capacity to fund the Paulson stadium deal.

At present, however, the Spectator Fund's debt on PGE Park and the Rose Quarter is so high -- \$51 million -- that it leaves little room for extra borrowing for new stadiums. And that has forced the city to consider creative -- and very expensive -- borrowing options.

For a majority of the new borrowings, the city plans to issue the municipal equivalent of a subprime interest-only loan. For years, it would make no payments on the debt while interest accumulates at an estimated 9 percent. Then it would retire the loan with a series of increasing balloon payments in later years through 2035.

The structure is so unusual that the city's debt manager isn't sure anyone would be willing to buy the bonds. That's where the Paulsons have stepped in again.

Paulson and his father, Henry Paulson, a former investment banking chieftain and U.S. treasury secretary, have pledged to help find a buyer.

Uncertain forecasts

Another unanswered question is how well the teams will ultimately fare.

Merritt Paulson envisions baseball annual attendance growing by 50 percent in a new minor league ballpark. According to projections, revenue from general admissions and club seats would mushroom 95 percent over 2008 levels in the first year the stadium opens.

He also expects to generate healthy operating profits in his first year as a Major League Soccer owner and clear a profit including his team acquisition costs by 2016.

That despite the fact that 10 out of 13 Major League Soccer teams recorded operating losses in 2007, according to an analysis of the MLS by Forbes Magazine. Eight of those teams have operated for more than a decade.

For help in reviewing Paulson's projections, the city turned to HVS International, a consulting firm that previously analyzed the proposed Oregon Convention Center hotel project. The problem is that no one in the city double-checked the consultant's numbers.

HVS director Brian Harris submitted a PowerPoint presentation and a report that evaluated the revenue and expense projections for a Major League Soccer team and a baseball team in a new stadium. The presentations, which were given to the citizen task force in February and have been posted on Commissioner Leonard's Web site for two months, include basic math errors and assumptions that change from page to page.

The reason? Harris said he transposed some of the figures while keyboarding them from a spreadsheet into the presentation. He was on an airplane at the time, he said, and was rushing to prepare the presentation. Later, he added that he was also sick at the time.

Logsdon said that neither he nor anyone else in his department checked the calculations of the numbers they were given. The task force chairman, Steve Maser, also said he doesn't recall much conversation about the numbers, noting that everyone assumed they were correct.

Harris defended the report, saying it led to the decision to secure Paulson's guarantee. The bottom line numbers are sound, he said, and reflect "what everyone was expecting."

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