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Abstract

The different approaches to stadium management adopted by the individual cities have been presented in this paper. In this respect particular importance was attached to the sources of income that will enable maintenance of these venues and pay off the enormous debt incurred by the cities in connection with their preparation.

Introduction

Until recently, most mega sports events were held by wealthy industrialised countries. Because of the high costs involved in the preparation of such projects, insufficiently developed sports and other infrastructure and the absence of appropriate legal basis, hosting such events was beyond the reach of developing countries. The beginning of the 21st century brought significant changes in this respect. On the one hand, countries with relatively weaker economies, aware of the benefits involved, submitted their bids more readily. On the other hand, institutions responsible for the selection of the host country began to promote less wealthy countries or those in the process of economic transformation, in order to provide a stimulus for development. Within less than a decade there have been a number of examples of sporting event hosts that confirmed the current trend, such as: Euro 2004 in Portugal, 2008 Olympic Games in Beijing, the decision concerning the staging of the FIFA World Cup in 2010 or, finally, Euro 2012 in Poland and Ukraine.

The different approaches to stadium management adopted by the individual cities have been presented in this paper. In this respect particular importance was attached to the sources of income that will enable maintenance of these

venues and pay off the enormous debt incurred by the cities in connection with their preparation.

The arenas and their financing

From among the arenas to host the 2012 European Championship only the Lech stadium in Poznań was actually in existence in 2007. It was undergoing redevelopment not necessitated by awarding of the Euro organisation to the city. There were also 2 other stadiums in place (the city stadium in Cracow and the Silesian Stadium in Chorzów) which hoped for the award of the Euro 2012 back in 2007. However, the candidatures of Cracow and Chorzów were rejected by the UEFA and ultimately those facilities could not be qualified in the Euro 2012 stadium infrastructure. All other stadiums, i.e. in Warsaw, Wrocław, and Gdańsk, existed only on paper, in the form of preliminary designs (Table 4.1).

Table 1.

Characteristics of the stadiums developed under Euro 2012 programme in Poland

Stadium location	Stadium name	Scope of works conducted	Capacity	Execution [in months]	Handed over for use in
Gdańsk	PGE Arena	erection	43 615	31	July 2011
Poznań	City Stadium in Poznań	redevelopment	43 098	23	September 2010
Warsaw	National Stadium	erection	58 500	38	December 2011
Wrocław	City Stadium in Wrocław	erection	44 308	36	September 2011

Source: the author's own study.

The largest of the all, i.e. the Warsaw stadium, earned the opinion of the most complex and advanced structure to be erected in connection with Euro 2012 from the very beginning. It was planned to replace the former Decade Stadium in Warsaw. Ever since its erection the stadium has become a hallmark of the developing capital city. Its patriotically symbolic facade brings to mind the red and white flag flapping in the wind.

Execution of the stadium investments went on without any major disturbances. The most serious problems were encountered at the City Stadium

in Wrocław. The investment stalled for a while because of contract termination with the first contractor, Mostostal Warszawa. The Max Bogl company, which took over, made up for the delay and completed all phases to the plan. All four facilities were handed over for operation at least six months before the onset of the tournament finals. The redevelopment of the Poznań stadium took least time. Construction from the scratch, on the other hand, was more time consuming. The National Stadium in Warsaw took the longest to complete (more than three years). The ground piling process alone for that largest of the facilities under construction lasted 6 months.

All the listed facilities share the feature of multifunctionality reflected in their extensive auxiliary commercial facilities. The functions are described in detail in subchapter 4.3.

All four stadiums Poland prepared for the Euro 2012 were financed from the public funds. The respective proportions between the centrally-provided funds guaranteed directly from the state budget and the funds from the municipal budgets of individual cities are presented in table 4.2. The table reveals that except for the National Stadium entirely financed from the central budget, the preparation of all other arenas was based mainly on the funds from the host city budgets. This means that the cities are the owners of the facilities and as such they have been burdened with the responsibility for the maintenance of the arenas after the Euro 2012. The substantial share of the local governments in financing the sports facilities stems indirectly from the fact that the actual expenses were larger than the original projections. The funds provided from the state budget were determined in fixed nominal amounts back in 2008.¹ The expenditure forecasted at the time on preparation of each of the stadiums was lower, which automatically translated to a higher share of the central financing. The most severe blow of the disproportion was suffered by Wrocław, where the actual local expenditure exceeded the original assumptions by nearly $\frac{3}{4}$ parts.

Table 2.

The expenditure connected with the preparation of the stadiums for the Euro 2012, and the sources of their financing

Stadium	Central budget	Local government budget	Total expenditure incurred	Expenditure forecast in 2008	Actual to forecast expenditure
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¹ Preparation and implementation of Euro 2012, Resolution of the Ministry Council No. 143/2008, dated 24 June 2008.

	[mln PLN]	[%]	[mln PLN]	[%]	[PLN mln]	[PLN mln]	ratio
Gdańsk	144	16.7	718.30	83.3	862.30	684.0	126.1%
Poznań	110	16.3	565.56	83.7	675.56	537.0	125.8%
Warsaw	1914	100.0	0	0	1914.00	1220.0	156.9%
Wrocław	110	12.2	794.22	87.8	904.22	521.1	173.5%

Source: The author's own study based on the data published by Ministry of Sport and Tourism.

Since 2008 the estimates for the construction the stadiums had been changing continuously. This was a major obstacle in the establishment of specific sources of funds and the necessary amounts obtained from those sources. In 2012, despite the advanced stage of construction works, all host cities apart from Warsaw were still in the process of completing their final lists of sources of finance for the projects underway.

In the case of Gdańsk, Poznań, and Wrocław, the cities' substantial share in financing stadium preparation works, amounting to over 80%, required obtaining funds from external resources. Each of the three cities adopted a different solution in this respect: a forfeiting agreement, bond issue, and bank loan. The instruments are detailed in table 4.3.

The most innovative solution was adopted by Gdańsk. In the case of that city it was more difficult to obtain a loan because of the risk of exceeding the statutory debt limit of 60% of the local governments' revenues. Therefore, an alternative method of venue financing was sought. The city chose forfeiting, which is a relatively common method of financing of businesses, similar to factoring. However, it is less commonly used by local government units in Poland, particularly on the scale employed in the case of Gdańsk. It might be interesting to look at the mechanism on which the whole operation was based. The procedure is presented in Figure 4.1.

Table 3.

Details of the earmarked external financing obtained by the host cities in preparation of the stadium facilities

City	Source of financing	Financing details
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Gdańsk	Forfaiting	<ul style="list-style-type: none"> – selling of receivables due to city of Gdańsk – BIEG is the debtor, – purchase price: PLN 375 million, – grace period – 3 years (until 2012) – the receivable maturity term – 15 years (until 2024) – cost – WIBOR 3M + margin
	Revenue Bonds	<ul style="list-style-type: none"> – value of the debt instruments – PLN 94,5 million,
Poznań	Bank loans and bond issue	<ul style="list-style-type: none"> – value of the debt instruments – PLN 540 million, – the instruments were reached for repeatedly, depending on the advancement in individual investment tasks under the adopted investment programme, – maturity terms – maximum 15 years, – grace period for loans – no longer than 7 years, – cost – WIBOR 3M and WIBOR 6M + margin of max. 1 p.p.
Wrocław	Investment loan agreement between the city and the consortium of BRE Bank, ING Bank, and Nordea Polska	<ul style="list-style-type: none"> – loan amount – PLN 500 mln, – lending period – 14 years, – grace period – 2 years, – interest rate – WIBOR 3M + margin of 0.99 p.p.

Source: the author's own study.

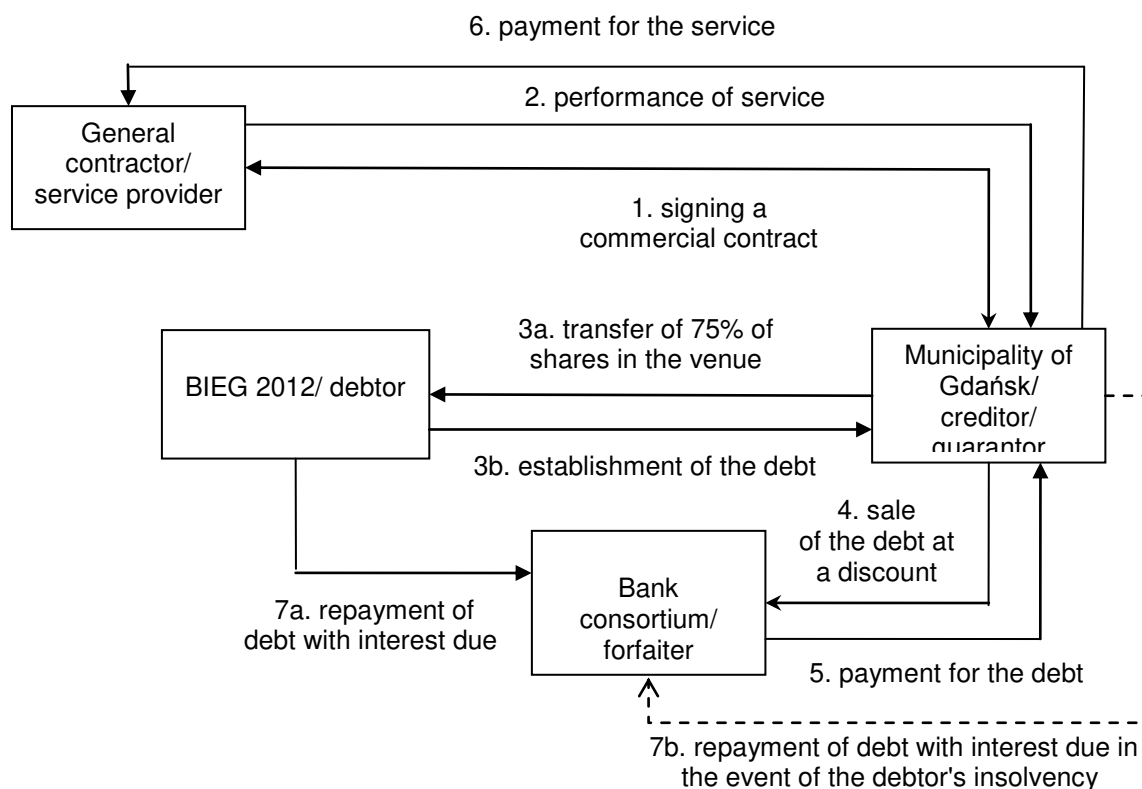


Figure 1. Forfaiting mechanism used in the construction of the stadium in Gdańsk
Source: Author's compilation.

The most important element of this puzzle was the transfer of ownership of the stadium from the municipality to a municipal company BIEG 2012. After this operation Gdańsk was holding only 25% of the shares. As a result, BIEG

was obliged to pay its share of PLN 375 000 000 and transfer these funds to the municipality. As the company did not have such funds available, the municipality decided to sell this debt to Bank Pekao SA. That institution, under a forfaiting agreement, repaid the debt to Gdańsk, reduced by an appropriate discount, which made it possible to pay the contractor for the construction of the stadium. In exchange, BIEG is obliged to pay off the debt to the banks in instalments for the next 15 years. Initially, only interest – ca. PLN 26 000 000, but beginning from December 2012 – principal and interest payments of ca. PLN 43 000 000 per year. Altogether, for the PLN 375 000 000 provided by the banks, BIEG has to repay ca. PLN 600 000 000. The interest rate depends on the WIBOR rate and now totals ca. 7% including bank margin. Thus, BIEG became a kind of “financial vehicle”, used by the city to obtain the required funds and simultaneously ensuring tax effectiveness of the project.

The forfaiting arrangement does not transfer the risk of insolvency to the forfaiter. The stadium was a risky business for the banks, so the venue was not even encumbered with a mortgage. BIEG was not a sufficiently credible partner for the lending consortium, so under the agreement the municipality is responsible for timely repayment of debt in the event of difficulties. Should BIEG stop repaying its debt, the forfaiting agreement would be terminated and the municipality would have to pay off the debt with interest accrued within the specified time limit. That is why Gdańsk continues to support the municipal company, aware that BIEG's troubles will in fact mean difficulties for the city. Support is provided in several ways.

First, the municipality decided to supply capital to the company every year. For example, in December 2012 Gdańsk acquired BIEG's shares for ca. PLN 35 000 000, which allowed the company to pay the instalment due to the consortium. The municipality also supplies other links in the chain financing BIEG's activities:

- pays for promotion of the city to the football club Lechia Gdańsk, which plays matches in PGE Arena and leases the stadium from the operator, which in turn supplies BIEG;
- pays to the operator for advertising during major events held in the stadium.

It is therefore difficult to say whether the choice of forfeiting by the municipality of Gdańsk was the best possible choice from the financial point of view. The city bears the entire financial risk, which is only apparently distributed over the newly established entities. The chief advantage is the somewhat different approach to forfeiting in terms of local government debt.

Wrocław and Poznań resorted to more traditional forms of financing. Wrocław consciously resigned from bond issue opting for a bank loan. The decision was mainly driven by the restrictions built into the Act on Bonds. The loan was found to be a simpler instrument in terms of both the process of accumulating the contract-related documentation, and in the funds disbursement and repayment (i.e. the disbursement and the contract-required and law-required documentation). The aspects which weighed on the decision included the option of early loan repayment which does entail additional costs, as would have been the case with bond redemption before the contractually specified date.

Modernisation of the City Stadium in Poznań was one of the investments the city pursued in preparation for the Euro 2012. The funds for implementation of the investment programme came largely from loans, typically obtained for the entire investment programme as a whole, and not for individual projects. Since the stadium project took several years to complete, it was financed from numerous debt instruments. Over the time, the city took loans and issued bonds of the 15-year maturity type, though in practice the crediting term did not exceed 10 years.

Resume

Little time has passed since the close of the Euro 2012, hence arriving at a clear opinion on the operators' efforts is difficult. For the time being, all arenas are generating a deficit, yet the representatives of their operators emphasise that the effectiveness of managing sites of that size should be assessed in a long time perspective. Each of the operators has adopted the deadline of at least 3 years to reach the break-even. In order to attain the set goal, the operators strive at maximizing the income from sports and non-sports activities, reducing the operating costs, increasing the durability of the facility and consequently making it more attractive to event organisers. All those elements determine the potential of generating income in the long term.

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