

Financing the Construction of a \$500 million Major League Baseball Stadium in Montreal Without Using Public Funds and Without any Investment by the Owners of a Future Team

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I. Abstract

This discussion paper analyzes various financing methods for the construction of a Major League Baseball (MLB) stadium in Montreal. Proposed is an innovative solution for overcoming various obstacles specific to financing stadium construction and this paper offers solutions for enhancing the current social discussions regarding this issue. This paper also builds on the December 2013 feasibility study released by Ernst & Young Orenda Inc. regarding the viability of bringing MLB back to Montreal. The Ernst & Young study estimates that the stadium's construction costs would be \$500,140,000 and recommends a hybrid financing approach that includes a government contribution of \$335 million and approximately \$165 million from the private sector. Although the author agrees with the Ernst & Young study's conclusion that MLB could be successful and viable in Montreal, he offers a different approach for stadium financing. The author's approach obviates the need for any investment from government and/or the future ownership group. Rather the author proposes that the entire \$500 million stadium construction cost comes from private foreign capital. This capital would be generated from a temporary immigrant-investor program specifically created for this purpose by the Government of Quebec (with the approval of the Government of Canada). This proposed Immigrant-Investor Stadium Program would be in operation for only three years, from 2015 to 2017. This program would accept a limited number of immigration applications each year (620 applications each year for three years, for a total of 1,860 accepted applications). The Government of Quebec would require each immigrant to contribute a substantial non-refundable payment (\$275,000 is suggested here) to be used to finance the construction costs of the stadium. Investissement Québec would receive the funds from the immigrant-investors and would transfer them to the Stadium Authority, the not-for-profit owner of the ballpark. In doing so, more than \$511 million would be raised for the construction costs of the stadium, resulting in no investment from the taxpayers of Quebec.

II. Full Text

A. Introduction

This discussion paper analyzes various financing methods for the construction of a Major League Baseball (MLB) stadium in Montreal and suggests an innovative solution to overcome the various obstacles typically encountered in such a venture. This paper builds on the *Feasibility Study Examining the Return of Major League Baseball to Montreal* (the "**Ernst & Young Study**") issued by *Ernst & Young Orenda Inc.* on December 12th 2013.² Although the author of this paper agrees with most of the findings found in the *Ernst & Young Study*, including the conclusion that it can be viable to bring MLB back to Montreal, he offers a different strategy for financing the construction of the ballpark.

Finding capital to finance infrastructure costs is usually the main problem associated with bringing a sports franchise to a city and/or keeping it there. The substantial costs and the very specific nature of professional sports venues make it difficult (and risky) for the private sector to solely undertake such a project's financial burden. Consequently, North American sports franchise owners usually seek financial support from local governments to build such facilities. In MLB, most teams used a "hybrid" model (a combination of public and private funding) to build or renovate their ballparks. Needless to say, when public funding is used to finance the construction of professional sports venues, it triggers important and divisive socio-political debates. This is especially true in a difficult economic environment like the one currently prevailing in Montreal and the province of Quebec. While most people in Quebec view the return of MLB to Montreal favourably, there are strong concerns and reservations about a project that would require public funding.³ In short, while a majority of Quebecers want MLB to return to Montreal, many would prefer it to happen with little to no public financing. Hence, a major barrier to bring MLB back to Montreal is stadium financing. In this paper, the author focuses on this specific problem

² http://montrealbaseballproject.com/wp-content/uploads/2013/12/Feasibility_Study.pdf

³ http://www.ccmdev.com/baseball/sondage_baseball_131212.pdf

and suggests various solutions in order to add to the public discussion on this issue.

B. The Construction Cost of a Major League Baseball ballpark in Montreal

For this discussion paper, the author will use the estimated costs detailed in the *Ernst & Young Study* regarding the financing of a new ballpark in Montreal. The study estimates costs at \$500,140,000 and it sets out the following hybrid financing model as the preferred method for funding the ballpark:⁴

- Personal seat licences:
\$30,000,000 (6%)
- Team owner equity:
\$77,832,000 (15.5%)
- Long-term debt:
\$57,472,000 (11.5%)
- Government contribution:
\$334,836,000 (67%)

C. A new approach to financing the ballpark

Difficulties associated with the construction of a MLB ballpark in Montreal include finding private investors willing and able to make such a significant investment and the reluctance of governments and taxpayers to use public funds to finance a ballpark. This analysis suggests an alternate strategy to address these problems.

The proposed approach overcomes these obstacles by using an immigration program specifically created by the Quebec immigration authorities with the aim of attracting foreign private capital to finance the construction of the ballpark. It is necessary to discuss Quebec's immigration legislative framework and, more specifically, the Immigrant-Investor Program's framework before discussing the proposal in more detail.

a) The Government of Quebec's current Immigrant-Investor Program

History

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In 1978⁵ and 1991⁶, the Government of Canada and the Government of Quebec signed agreements allowing the Government of Quebec to control selection and admission of all immigrants wishing to immigrate to Quebec. Said agreements ensure federal-provincial cooperation. While Quebec may select its own immigrants, immigration levels and categories must respect the targets and objectives established by the Government of Canada. In that context, the Government of Quebec created numerous immigration programs, including the Quebec Immigrant-Investor Program. This program, like all others, is governed by several provincial laws and regulations including:

- *An Act respecting immigration to Quebec*, L.R.Q., c. I-0.2; and
- the *Regulation Respecting the Selection of Foreign Nationals*, I-0.2, r.4.

At the federal level, the following legislative legislations apply to the Quebec Immigrant-Investor Program:

- the *Immigration and Refugee Protection Act*, S.C. 2001, c. 27; and
- the *Immigration and Refugee Protection Regulations* (SOR/2002-227).

The Quebec Immigrant-Investor Program's general objective is to use foreign capital obtained from immigrant-investors to provide financial assistance to Quebec businesses. Under this program, each immigrant-investor makes a five-year interest-free deposit of \$800,000 to *Investissement Québec* (a state-owned entity). To facilitate this process, the Government of Quebec appoints financial intermediaries to receive the immigrant-investors' funds and transfer them to *Investissement Québec*.⁷ This capital, in turn, is invested by *Investissement Québec* to generate a profit. The profit generated by the invested funds is then distributed to Quebec businesses as non-refundable

⁵ The Cullen-Couture Agreement

⁶ The Canada-Quebec Accord

⁷ <http://www.immigration-quebec.gouv.qc.ca/en/immigrate-settle/businesspeople/applying-business-immigrant/three-programs/investors/financial-intermediaries.html>

financial assistance.⁸ The immigrant-investor has no property rights to the investment profits and does not have oversight or participation in the investment process; the immigrant's involvement in the investment process is strictly limited to providing an interest-free deposit to *Investissement Québec*.

This program is important for Quebec's economic development. According to the 2012-2013 annual report issued by *Investissement Québec*,⁹ the revenues generated by the Immigrant-Investor Program resulted in transfers of more than \$43,900,000 to Quebec businesses during that financial year alone. The program has also helped the Quebec economy to create and/or maintain more than 3,331 jobs.

Criteria to qualify for the Quebec Immigrant-Investor Program

The Quebec Immigrant-Investor Program has been modified and updated on multiple occasions since its inception. In its current form, the program requires each applicant to:¹⁰

- have net assets of at least \$1,600,000;
- prove that said assets were acquired in a legitimate manner;
- have at least two years of management experience acquired in the last five years;
- make a five-year interest-free deposit of \$800,000 to *Investissement Québec*; and
- pay a \$10,000 non-refundable processing fee to the Government of Quebec (this amount covers the processing fees of all family

members included in the same immigration application).¹¹

If applicants meet all of the requirements set forth by the Government of Quebec and all formalities required by the Government of Canada regarding security checks and medical exams, the following individuals will be allowed to immigrate to Quebec/Canada as permanent residents:

- the principal applicant;
- his or her spouse; and
- his or her dependent children.

The Quebec Immigrant-Investor Program is very popular with wealthy immigrants. From 2008 to 2012, 12,657 immigrants (including spouses and dependent children) came to Quebec using this program.¹²

In 2013, the Government of Quebec opened the Immigrant-Investor Program for only 16 days (August 1st to August 16th) and allowed 1,750 applications to be processed (French-speaking applicants were/are allowed to apply at any time before March 31 2014 even after the quota of 1,750 applications was reached). Despite the limited time period, the Quebec Immigrant-Investor Program authorities received 5,389 immigration applications. Under the supervision of external auditors, a lottery was conducted to choose which 1,750 applications would be processed. Important to note, more than 5,300 potential immigrants were willing to invest a substantial amount of money to immigrate to Quebec.

The Quebec Immigrant-Investor Program was closed March 31, 2014. However, the Government of Quebec recently announced that its Immigrant-Investor Program will re-open from April 1, 2014 to March 31, 2015. French-speaking applicants will not be subject to a quota and can apply at any time during the released dates. Again with a quota of

⁸ <http://www.investquebec.com/quebec/en/financial-products/all-our-products/immigrant-investor-financing.html>

⁹ http://www.investquebec.com/documents/qc/publications/RAIQ_2012-2013_fr.pdf

¹⁰ <http://www.immigration-quebec.gouv.qc.ca/en/immigrate-settle/businesspeople/applying-business-immigrant/three-programs/investors/index.html>

¹¹ <http://www.immigration-quebec.gouv.qc.ca/en/informations/rules-procedures.html>

¹² http://www.micc.gouv.qc.ca/publications/fr/recherches-statistiques/Portraits_categories_2008_2012.pdf

1,750, non-francophone applications will only be accepted from September 8 to 19, 2014.¹³

Immigration levels in Quebec

From 2008 to 2012, official statistics published by the Government of Quebec¹⁴ indicate that 255,442 people immigrated to the province of Quebec. This figure includes all immigration categories and represents an average of roughly 51,000 immigrants per year. In 2012 alone, 55,036 individuals immigrated to Quebec. The Immigrant-Investor Program was utilized by 12,657 immigrants from 2008-2012, and the program therefore accounts for approximately 5.0% of Quebec's total immigration.

b) A new Immigrant-Investor program specifically created to finance a Major League Baseball stadium in Montreal

The *Ernst & Young Study* makes a number of projections that are worth noting in relation with this paper.¹⁵ First, construction and design of a ballpark in downtown Montreal would commence July 2015 and be complete March 2019. Second, the total projected cost is \$500,140,000. Thirdly, the study also envisions the ballpark to be owned by a "Stadium Authority", a not-for-profit entity created for the purpose. Using this foundation, the author suggests that the following steps be taken to finance the construction of the downtown Montreal ballpark:

- The Government of Quebec, with the approval of the Government of Canada, will create a temporary immigrant-investor program (the "Immigrant-Investor Stadium Program") with the sole purpose of financing the construction of a ballpark in Montreal;
- This new program will exist separate from the current Immigrant-Investor Program having similar but slightly different requirements. In short, the Immigrant-Investor Stadium Program will not replace the current

Immigrant-Investor Program and these programs will coexist;

- For discussion's sake, the author proposes that 1,860 applications will be accepted under the Immigrant-Investor Stadium Program over a three year period (620 applications in each of 2015 to 2017);
- The Immigrant-Investor Stadium Program will have substantially similar requirements as the Immigrant-Investor Program. Each principal applicant will have to demonstrate to the *Ministère de l'Immigration et des Communautés Culturelles du Québec* that he or she:
 1. has a minimum amount of net assets (to be determined by the Government of Quebec);
 2. can demonstrate that these assets were acquired in a legitimate manner;
 3. has a minimum level of managerial experience (to be determined by the Government of Quebec);
 4. has paid a \$10,000 processing fee to the Government of Quebec (or any amount to be determined by the Government of Quebec);
 5. Applicants need not be francophone, but priority will be given to applicants who are fluent in French;
 6. has made the required investment. However, this investment required under the Immigrant-Investor Stadium Program will be different from the one required under the current Immigrant-Investor Program. Instead of an interest-free deposit of \$800,000, each accepted applicant will make a non-refundable financial contribution specifically destined to finance the ballpark (which this paper suggests should be \$275,000 for discussion's sake). This financial contribution of each application will be sent to *Investissement Québec*, which will be responsible for receiving the funds (as it does for the current Immigrant-Investor Program) and transferring these funds to

¹³ GAZETTE OFFICIELLE DU QUÉBEC, 26 mars 2014, 146^e année, n^o 13 p.1279

¹⁴ http://www.micc.gouv.qc.ca/publications/fr/recherches-statistiques/Portraits_categories_2008_2012.pdf

¹⁵ Pages 30-31

the Stadium Authority. For discussion purposes, the author has proposed a \$275,000 contribution but immigration authorities could determine any investment method they deem appropriate.

When the criteria are met and the immigration application is accepted by the *Ministère de l'Immigration et des Communautés Culturelles du Québec*, the application will follow the usual federal process of Citizenship and Immigration Canada for the issuance of the permanent resident visas.

- The financing strategy proposed in this paper will eliminate the need for public funding to finance the ballpark's construction. Instead, funds will come exclusively from private foreign capital. Using the author's suggested number of immigrant-investors and contribution amounts, the following capital will be raised to finance stadium construction:

- 2015: \$170,500,000 (620 accepted applicants x \$275,000);

- 2016: \$170,500,000 (620 accepted applicants x \$275,000);

- 2017: \$170,500,000 (620 accepted applicants x \$275,000);

Total: \$511,500,000

The *Ernst & Young Study* estimates the new ballpark construction cost to be \$500,140,000. The proposed Immigrant-Investor Stadium Program will generate revenues of \$511,500,000. This amount will cover the construction costs projected by Ernst & Young entirely and leave a reserve of approximately \$11,000,000. This reserve could be used for the additional administration costs incurred by *Investissement Québec*, the administration costs of the Stadium Authority or any other expenses as deemed appropriate.

- Regarding the investment process, the author suggests the same approach for the Immigrant-Investor Stadium Program as for the current Immigrant-Investor Program. *Investissement Québec* will be responsible for receiving funds from immigrant-investors and transferring them to the ballpark owner, the

Stadium Authority. Immigrant-investors will have no ownership rights in the stadium because their contribution will only count towards qualifying for the Immigrant-Investor Stadium Program. In short, as in the current Immigrant-Investor Program, immigrant-investors will have no property right, no oversight, and no decision-making powers regarding the investment.

- As the *Ernst & Young Study* suggests, the ballpark will be owned by the Stadium Authority and operating agreements, such as a lease, will be entered into with the team owners. However, minor modifications to the *Ernst & Young Study* financing model would be made since financing will not come from the sources suggested by Ernst & Young, but rather from the Immigrant-Investor Stadium Program.

It should be noted that the Government of Canada recently announced the termination of the federal Immigrant-Investor Program in order to replace it with a new program. Details are still unknown, but it appears that the federal government is intending to create a pilot project involving venture capital funds to replace the current federal Immigrant-Investor Program.¹⁶ The Government of Quebec, on the other hand, recently announced that it will re-open its Immigrant-Investor Program for 2014.¹⁷ This model for ballpark financing suggested by the author of this discussion paper is merely one of the strategies which could be considered by governments. There are multiple ways to proceed with such financing and the Government of Quebec and the Government of Canada could determine the specifics. If they deem it appropriate, they could elect to ask for a higher contribution (or a completely different form of contribution) from immigrants. The financing model suggested in this paper could take multiple forms. It is the policymakers of the *Ministère de l'Immigration et des Communautés Culturelles du Gouvernement du Québec* and their federal counterparts who are in the best position to determine the specifics. This paper's main argument and key point is: raising foreign private capital

¹⁶ <http://actionplan.gc.ca/en/initiative/immigrant-investor-program>

¹⁷ *GAZETTE OFFICIELLE DU QUÉBEC*, 26 mars 2014, 146^e année, n^o 13 p.1279

through an immigration program will prevent the need for public funding for such a project.

c) Advantages and disadvantages of this strategy to finance the construction of the ballpark

Main advantages of this strategy:

- Public funds will not be used to build the ballpark. Despite the fact that the funds (\$511,500,000, using the example above) will come through *Investissement Québec* and will be obtained through a governmental immigration program, these funds will be 100% generated from foreign private capital (that is, immigrant-investors). These funds will be a significant injection of new capital into Quebec's economy and will represent a significant saving for taxpayers (more than \$335 million if the financing model of the *Ernst & Young Study* is used). Quebec taxpayers' money will not be used to finance the construction of the stadium;
 - The future team owners will not have to pay for the construction of the stadium. Buying and operating a MLB franchise is a significant financial risk. According to the projections in the *Ernst & Young Study*, the owners will have to contribute more than \$135 million in equity and long term debt to finance the construction of the ballpark. The owners will save a substantial amount of money if the strategy suggested above is employed as the entire cost of the ballpark will come from the revenues generated by the Immigrant-Investor Stadium Program. The impact of this proposed strategy on the ownership group would be two-fold:
 1. The return of MLB to Montreal will become a great business opportunity for potential investors (or for current owners looking to relocate their team) because they will not have to spend any money on the construction of the new stadium; and
 2. Future owners will have greater financial flexibility to buy a better existing team and/or pay for better players to improve the team.
- The proposed Immigrant-Investor Stadium Program will have a negligible impact on immigration levels. In 2012, Quebec accepted 55,036 immigrants. Accepting 620 additional immigration applications per year for three years under the proposed program will have little impact on immigration levels. It will result in approximately 2,000 more immigrants per year when spouses and dependent children are included. Compared to 2012 levels of immigration, this represents a fairly low increase of only 3-4% each year.
 - The Immigrant-Investor Stadium Program will not trigger additional expenses for the Government of Quebec for processing the additional applications. The *Ministère de l'Immigration et des Communautés Culturelles du Québec* will certainly need additional human and material resources to process the additional immigration applications. However, these resources will be financed by processing fees paid by each applicant. As previously explained and as seen in the current Immigrant-Investor Program, each applicant will pay a \$10,000 processing fee to the *Ministère de l'Immigration et des Communautés Culturelles du Québec*. The 620 applications accepted each year, and the applications submitted but rejected after analysis, 380 for argument's sake, should generate approximately \$10,000,000 (1,000 applications analyzed (620+380) x \$10,000) to cover any additional costs. Since the *Ministère de l'Immigration et des Communautés Culturelles du Québec* already has existing structures, resources and experience, this amount will be more than enough to cover additional costs of implementing the program.
 - From 2015 to 2017, the province of Quebec will benefit from accepting 620 additional high net worth immigrants. Every applicant accepted under the Immigrant-Investor Stadium Program will own substantial net assets and have solid managerial experience. This will bring significant benefit to the province's economy.
 - The return of MLB to Montreal will have a positive impact on the economy in Montreal and in the province of Quebec. See the *Ernst*

& *Young Study*, which extensively discusses this issue;¹⁸

- The professional experience of the current mayor of the City of Montreal, Denis Coderre. The term of the current municipal administration will end in 2017, a period that covers the entire timeline proposed in this paper. Mr. Coderre has personal experience related to issues discussed in this paper. A few years back in the federal Cabinet, he was Canada's Citizenship and Immigration Minister and Secretary of State for Amateur Sport. This experience gives Mr. Coderre firsthand knowledge and a really unique perspective on the challenges and issues discussed in this paper. His experience and understanding of the issues can be crucial to the realization of the ballpark construction using the proposed strategy;

- Could the province of Quebec find 620 immigrant-investors per year for three years to successfully implement the Immigrant-Investor Stadium Program? Investing \$275,000 to immigrate to Quebec is a substantial amount, even for high net worth immigrants. However, when compared to other similar programs (United Kingdom and United States, for instance), it will be a competitive program. Despite the program requiring an interest-free deposit of \$800,000 when the Government of Quebec opened the current Immigrant-Investor Program, it received more than 5,389 applications in 16 days in August 2013. In order to efficiently manage its immigration levels and processing times, the Government of Quebec only processed 1,750 applications. This means that more than 3,600 applications were not even reviewed and were simply sent back to immigration applicants. One can reasonably assume that these thousands of wealthy potential immigrants are still interested in immigrating to Quebec and that they would be willing to make a significant financial contribution of \$275,000 (or more) to do so. In short, there is a strong demand among immigrant-investors to immigrate to Quebec and in the author's opinion, it would be easy to find 620 qualified applicants per year for three years for the proposed Immigrant-Investor Stadium Program.

Main obstacles and disadvantages of this strategy:

- Political, legislative and administrative difficulties. Modifying or creating an immigration program is not by any means a small task. It is a colossal endeavour considering that significant political, legislative, and administrative challenges will arise at all levels of government. Without diving too extensively into these subjects, the author wishes to point out the obvious: the creation of a brand new immigration program is a difficult task that requires the agreement and cooperation of multiple governmental entities at all levels. Having said that, the Government of Quebec and the Government of Canada have previously been able to efficiently create and/or modify several immigration programs, including the current Immigrant-Investor Program. Could these governments establish the same level of cooperation and efficiency to create a new immigration program to finance a MLB ballpark in Montreal? The author cannot answer this question. However, significant modifications to various immigration programs in previous years are interesting precedents.

D. Conclusion

In the current economic climate, it is the opinion of the author that all actors involved in the return of MLB to Montreal should first consider solutions that do not require the use of public funds to finance the project. The strategy suggested in this paper is in agreement with this perspective and aims to enhance the debate regarding the ballpark. As mentioned above, provincial and federal authorities are currently studying options to replace the existing Immigrant-Investor Program and to ensure that the immigrants chosen for this program positively contribute to Quebec's economy. Whatever requirements the proposed Immigrant-Investor Stadium Program will have, the idea of using such a program to finance a MLB ballpark in Montreal is in line with this perspective. The author appreciates the significant legislative and political challenges of

¹⁸ Page 51 and al.

creating a new immigration program. However, projects such as the return of MLB to Montreal require audacity and innovation. The main question should not be whether Quebec could find investor-immigrants to finance a \$500 million ballpark as this aspect of the proposal will not be problematic considering the strong interest of wealthy immigrants in immigrating to Quebec. The financing “logistics” aspect is also not a major obstacle since a similar program is already in place and *Investissement Québec* would function in a way similar to how it presently does. Rather, the principal unanswered question is whether there is political will in Quebec City and Ottawa to create an immigration program to finance a MLB ballpark in Montreal. A positive answer to this question would probably make the construction of a baseball stadium in Montreal a reality.

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