Irregularities and New Questions Surrounding Pepco's Buzzard Point Sponsorship Deal

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A White Paper

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On September 18, 2015, Pepco Holdings, Inc. ("Pepco") entered into a sponsorship agreement with the District of Columbia ("D.C.") to pay the city $25 million for vague naming rights related to a street or plaza near the proposed new D.C. United soccer stadium at Buzzard Point in D.C. This arrangement raises a host of questions when compared to other corporate naming rights deals, especially in the face of the ongoing Pepco-Exelon utility merger. A closer look into sponsorship arrangements and naming rights deals across the country reveals a number of irregularities in Pepco's soccer deal. Not only is Pepco's up-front payout uncommon for major sponsorship arrangements, but the brevity and simplicity of the naming contract itself is virtually unprecedented compared to every other naming rights contract we could find. But, just days after signing the vague agreement, Pepco *did* secure a settlement agreement with Mayor Bowser worth $6.8 billion to Pepco and its merger partner Exelon. The language included in the minimal two-page soccer naming rights agreement signed by both Pepco and D.C. gives the strong appearance of "pay to play" politics.

No other case like this in America

A search of naming rights deals across the country finds no other major sports facility naming rights agreement that involves a one-time, up-front payment of this type for branding.

Sponsorship agreements generally revolve around terms that range anywhere from 15 to 25 years, during which yearly or otherwise recurring payments are made to uphold the contract. The Buzzard Point sponsorship deal, however, does not list any terms for the period during which Pepco branding will take place. The deal does not spell out whether Pepco's future sponsorship will occur during a set number of years or whether the agreement is perpetual in nature.

Neglecting to specify the dated terms of sponsorship in such a pricey agreement is highly unusual in the world of naming rights agreements. For example, the naming of the Verizon Center in Washington, D.C. is the result of a 20-year-long contract between the District of Columbia and Verizon Communications. Or take FedEx Field, home to the Washington Redskins. FedEx is currently in an ongoing 27-year contract for exclusive naming rights of that field, through which the corporation makes annual payments to the arena's owner.

Pepco's payment amount is totally out of sync with other sports facilities

A records search shows that, for the same amount of money, Pepco could have secured naming rights for an entire major sports facility itself – not just an adjacent street or plaza – for multiple years. For example, the 1997 naming rights deal between Verizon Communications (and MCI prior to merging) and D.C. calls upon the corporation to pay out roughly $44 million by the end of its 20-year contract through recurring annual payments of $2.2 million per year. When this figure is compared to Pepco's Buzzard Point sponsorship deal, Pepco actually paid the equivalent of more than 10 years of naming rights for the entire Verizon Center. But Pepco only gets an adjacent street for its money.

In fact, corporations have paid less than $25 million to acquire exclusive, decade-long naming rights for entire soccer stadiums in other major cities. For example, Dick's Sporting Goods will pay $20 million over 10 years for exclusive naming rights at Dick's Sporting Goods Park, home to the Colorado Rapids in Denver. A similar $2 million-a-year deal applies for exclusive naming rights at the stadium that hosts the San Jose Earthquakes in California – Avaya Stadium. Furthermore, we could find no record of any sponsorship deal like Pepco's where only an adjacent street or plaza was the subject of the naming rights, versus a sports facility itself. This agreement appears to be virtually unprecedented.

Pepco's contract is fantastically brief compared to other naming rights contracts

Finally, a look at the length and language of the Pepco naming rights contract clearly points to irregularities in the Buzzard Point sponsorship deal. The contract for Pepco's agreement to pay the District $25 million is not even two pages in length. This short contract is highly unusual for naming rights and sponsorship arrangements; such arrangements generally involve lengthy contracts that spell out legally binding definitions, objective standards and technical specifications regarding the location, type and size of sponsorship signage. Take, for example, the 64-page contract in 2006 between the University of Maryland and Chevy Chase Bank, F.S.B. for naming rights of the University's football stadium. Or the 24-page contract between the University of Utah and Maverik, Inc. for long-term, exclusive naming rights. Each of these documents lays out terms and conditions for how the agreement is to play out over a set period of years. Yet the two short pages of the Buzzard Point deal only reference future negotiations between Pepco and D.C. to decide on specific and technical details for the arrangement. This arrangement is highly, highly unusual.

So what did this one-time $25 million payment get Pepco? Well, not much compared to other corporations who have entered into naming rights deals. Pepco's payout only offers the utility minor naming rights opportunities in return for the $25 million investment, as opposed to specified arrangements and plans for the utility to acquire said naming rights. Pepco's deal with the District is not a sponsorship deal at all, but rather a deal that just refers to the possibility of Pepco gaining naming rights for a small property or street adjacent to a future soccer stadium. Pepco essentially paid out $25 million to agree to work with the District to develop sponsorship opportunities that are only vaguely described in the two-page contract. So, two major questions stand: was Pepco actually out to get naming rights? Or was the return on its $25 million investment beyond the soccer stadium? With Mayor Bowser's acceptance of the Pepco-Exelon merger settlement agreement just days after this vague naming rights deal was made, these questions must be answered.