

Comments on Andrew Zimbalist's Rexall Place, the Edmonton Oilers, and Plans for a New Arenas, Final Report, September 27, 2010

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Introduction

Across the last three decades my good colleague, Professor Andrew Zimbalist and I have been studying the economics and management of professional sports, the effect of teams and their facilities on urban economies, and the ways in which cities can enhance the benefits produced by teams and sport facilities. We have worked together on more than one occasion. Two of my research papers were included in one of his edited collections. We have testified together before the US Congress on issues related to sports and their economic effects. Between us we have authored dozens of scholarly articles and books on sports, economics, and economic development.

As friends and colleagues who have worked together to help public and community leaders develop projects with teams that have avoided inappropriate subsidies, we agree on many issues. His memorandum of September 27, 2010, however, identifies some key points where we have a level of disagreement.

This brief response identifies some of those disagreements.

My comments amplify some of the work already submitted to the City of Edmonton that Professor Dan Mason and I have produced. Some of what is discussed below was also presented at conferences organized by the University of Alberta and Edmonton's Chamber of Commerce.

The Oilers' Need for A New Arena

The Katz Group initiated discussions with the City of Edmonton regarding their conclusion that a new arena was necessary for the long-term financial stability of the Edmonton Oilers. Since the team's preferences became known, the City of Edmonton has diligently looked at numerous options including renovations to Rexall Place. Professor Mason and I were engaged to help produce some of the analysis required as the city's staff performed their assessments.

The work contributed by Dan and me has consistently focused on the value of the Edmonton market and the ways in which a new arena – if built – would fit into the city and region's longer term economic development plans and possibilities.

Professor Zimbalist joins us in recognizing that Rexall Place has a degree of economic obsolescence resulting from a lack of club seats, cramped and poorly placed luxury suites, and small concourses that reduce opportunities for revenue generation. These are the very points raised by the Katz Group in their observations that the revenue potential of Rexall Place does not match that which is available to most other NHL franchises.

One of the world's most respected architectural firms has advised that modifications to rectify these limitations would require changes from, in their words "the facility's structure from the frame up ...". Such an extensive expense required an assessment of whether or not a new facility might be more productive especially if it complemented the City's urban plans and economic development strategies. Professor Zimbalist suggests that this extensive renovation expense might be worthwhile because of the facility's current performance and urges that careful analyses be undertaken before a new facility is built. Indeed for the past several years that is precisely what has transpired.

Professor Mason and I are convinced that a new facility is in the economic best interest of Edmonton. The continued interest in a new arena by the Katz Group suggests they too have reached a similar conclusion. In that regard, while there is much that I agree and respect in the work of Professor Zimbalist, with regard to his concerns with a new downtown arena, suffice to note that our paths diverge. Some might be tempted to think that if Dan and I reached the same conclusion as did the Katz Group that a new facility is the preferred option that we also endorse the team's preferred financial strategy and the need for substantial taxpayer support. That would be an unwarranted and unfair observation.¹

Returning to Andy's report there are several points of disagreement between he and I that must be underscored.

First, we have a frank disagreement with the observed economic performance of Rexall Place. Most notably, the arena's contribution to the fiscal health of the Oilers is a product of a \$2.2 million annual subsidy provided by the City of Edmonton to Northlands specifically for the facility's operations. The full extent of the City's annual investment is not limited to the operating expense as Edmonton has responsibilities for capital needs at the facility too. These increase as the facility ages so it is important for all taxpayers and community leaders to recognize that

¹ Agreeing with the Katz Group on critical issues relative to NHL and arena economics and management does not imply or mean that therefore there is support or need for a large public subsidy for the building of a new arena. Before any partnership can be formed and forged, however, it is imperative for negotiating partners to identify where independent assessments by each side have validated points and issues raised by the other. There is appropriate concurrence on the economic obsolescence of Rexall Place and the advantages that would result for the team and the community from a more economically productive arena.

local taxes are currently used to insure that the facility meets the needs of all of its tenants including the Edmonton Oilers.

Second, a substantial portion of the argument made regarding the viability of Rexall Place is based on *Forbes'* estimate of the team's profitability; Professor Zimbalist himself, however, warns about the notorious inaccuracies with these data. On page 2 of his report he notes that *Forbes* appears to have miscalculated or misestimated the financial position of the Phoenix Coyotes and the Columbus Blue Jackets. That might leave one to wonder if the magazine's assessment of the Oilers' fiscal performance could be similarly flawed. Suffice to note it is the team and its ownership that suggested there is a degree of economic obsolescence with Rexall Place and a need exists for a new arena. The team's owner probably has a valid sense of what it will take to maintain the team's long-term economic viability. There is little to be gained from debating whether or not the team is profitable or more profitable than other clubs. What is essential to analyze is (1) whether or not more *net* revenue could be produced from a new arena and (2) if that improved net position to insure the viability of the team and arena for decades to come. All of the analyses that Dan and I have produced for Edmonton have addressed these two points.

Third, every other team in the NHL has access to luxury seating and their home venues can support far more opportunities to derive revenues (point of sale items, advertising, etc.) than is available to the Edmonton Oilers. It would be counterproductive in any negotiation with the team to deny what is patently self-obvious. Rexall Place is economically obsolete and a successful and mutually beneficial partnership is needed between the team and the city where neither partner subsidizes the other, to insure that Edmonton has the arena it needs for the decades ahead. Dan and I remain convinced a mutually advantageous contract and partnership is possible that protects the interests of taxpayers, sport fans, residents who regularly visit Edmonton for entertainment, and the team. Partnerships of this nature have been created and established elsewhere. Edmonton's leadership is well positioned to establish such a partnership for its voters and taxpayers.

Fourth, as Professor Mason and I have underscored many times in our presentations, and as Professor Zimbalist agrees (Zimbalist, 2003), it is virtually impossible to understand the profit position of team owners. For this reason we have urged the City and its leadership to ignore claims of profitability or loss, but to focus on (1) the value of the Edmonton market, (2) ways to increase revenues from arena operations, (3) the City of Edmonton's planning objectives, and (4) the realization of the City's own economic development goals. Together, we have produced our own gross estimates of the revenue a new arena could produce (compared to what is possible at Rexall Place). Those estimates are part of the process of negotiating a mutually beneficial contract with the Edmonton Oilers.

Summarizing the work of others, Professor Zimbalist underscored that team owners can shift income among the many component parts of their business

syndicates to enhance the profits of one and the losses from another. There is also the matter of long-term capital gains from ownership and how those should be included in measures of annual profitability. Owners also derive non-pecuniary gains from team ownership and those are worth a good deal to most owners. As I know Andy agrees with each of these points, discussing or dealing with any issues related to the Oilers' supposed operational profitability (or not) is not relevant or even possible.

It is best to identify what is valid and to which both parties can agree. I have maintained as has Dan Mason that:

(1) Rexall Place does not and cannot offer to the Oilers and the City of Edmonton revenue streams that are indeed valuable to the team, the city, the region, and sports and entertainment fans.

(2) The Edmonton market is valuable and both the city and the Katz Group understand and appreciate how that value can and should be used to formulate a financing plan that is fair to taxpayers and the teams.

(3) Issues of profitability are best left to the Katz Group and are really not of concern or germane to the policies and planning objectives of the City of Edmonton.

(4) Together, the team and the City need to be able to properly estimate the total gross revenues that a new arena could produce, and negotiate in good faith with each other as to how those revenues are to be used to finance a new facility and insure that the Edmonton Oilers are an economically viable and on-going asset for the city and region's development.²

The Placement Of A New Arena and Its Effects

The City of Edmonton's Planning Department and its Office of the City Manager have done as Professor Zimbalist has suggested with regard to a careful due diligence focused on arena operations, the available options to both the city and the team, and the identification of the location that maximizes the financial benefit of the arena for the team and the City of Edmonton. There has been a careful assessment of the feasibility and economic sense associated with a renovation of

² The issues of gross team revenues, the value of markets, and the ways in which profits move among the component parts of owners' integrated business ventures is more fully discussed and analyzed in Winfree, Jason & Mark S. Rosentraub, (2011) *Sport Finance and Management: How Real Estate and Entertainment Changed The Business*, Florida: CRC Press/Taylor and Francis.

Rexall Place. Those benefits and costs have been carefully and prudently compared with the benefits and costs of building a new facility in downtown Edmonton. Those reports and findings were not reviewed or commented upon in Professor Zimbalist's document. The City's leadership and staff can discuss that work again and underscore why and how a new arena fits with the longer-term plans for the downtown already approved by the council.

Professor Zimbalist and I were among a small group of academicians who diligently worked on research projects in the 1990s to show that at the regional level teams and facilities had little or no economic effects. That work was important at a time when there were exaggerated claims of what a team or a new facility would mean for a region. Professor Zimbalist correctly quotes from work I published beginning in the early 1990s that cities needed to be wary of claims that a team's presence changed a region's economy. He and I, as well as Professors Robert Baade, Dennis Coates, Brad Humphreys, and others have methodically sustained that point.

At a conference convened by Dr. Zimbalist (and Professor Roger Noll) at the Brookings Institution in 1996, Andy and I both made presentations on the limited economic effects of sport facilities at the regional level. In response to our work, however, Professor Edwin S. Mills wondered if *where* a facility was located might make a difference. Professor Mills reminded the entire group that urban economics was a field of work focused more on understanding spatial effects and perhaps that is where we as a policy group next needed to apply our skills. As Professor Zimbalist correctly summarizes, since 1998 my work has focused on studying the effects of the placement of a sport facility on the distribution of economic activity within a city and region. I have also worked with a number of cities in developing partnerships with teams to produce important design and development shifts.

Why are these shifts important?

The answer to this question lies in the dynamics in each region, but in each instance important policy objectives were achieved. In Cleveland relocating economic activity to the downtown area had a **financially positive effect on the fiscal health of the central city**. The majority of the public sector's investment for the facilities came from the county, but the fiscal returns predominantly accrue to the city (Rosentraub, 2010; Mills, Rosentraub, Winfree, and Cantor, 2011). I was not involved in the original negotiations between the public sector and the Cleveland Indians and Cleveland Cavaliers. In latter years when I assumed my position as one of the five directors of the agency (foundation) responsible for the arena and ballpark, the terms of the agreements were substantially modified increasing the teams' financial responsibilities for the facilities. While the teams' presence in Cleveland does not change the economy of Northeast Ohio, important financial and development benefits were created for the City of Cleveland as a result of the placement of the ballpark and arena in downtown Cleveland.

I have published a book on the effects and outcomes for Columbus (Ohio), Los Angeles, and San Diego from the placement of new sport facilities in downtown areas. The challenge or objective Columbus sought for its Arena District was similar to the issue for Cleveland (deflection of economic activity back into the central city).

While the financial environment of Columbus is not at all similar to the challenges confronting Cleveland, the City Council in Columbus had noted with some concern that rapid growth of some suburban counties (Delaware) and increasing urban decay in central Columbus needed important and dramatic policy and development responses. Dr. Zimbalist underscores that it is or was possible that some of the development that took place in downtown Columbus might have taken place elsewhere in the city. While that is possible, the development that did take place in the Arena District had that plan not moved forward would most likely have occurred outside the city (in other parts of Franklin County or in suburban Delaware County) and certainly would not have taken place in downtown Columbus.

Columbus' objective was to move development to the downtown area without increasing taxes, and that was accomplished. In Cleveland, as Dr. Zimbalist well knows, in the absence of the ballpark and arena it is likely the urban exodus that has characterized that region would have left Cleveland with even less development and fewer tax dollars than it currently enjoys.

When thinking about an arena for downtown Edmonton outcomes in Los Angeles and San Diego are probably most relevant, as is the observation that in the absence of the sport facility developed in each city's downtown area the development that took place would probably have taken place elsewhere in each city.³ What is important, however, is that the City Councils in both cities, in concurrence with their respective mayors and professional planning staffs, wanted to deflect development ***into the downtown areas***. This was their policy objective driven in both instances by different needs. Those needs are not critical to this discussion. What is important is that both City Councils went through a deliberative planning process and chose a course of action that has achieved the desired policy outcomes.

In San Diego, the Gas Lamp District was successful but it had not created a new residential base and community in the downtown area. The Ballpark District achieved that goal. Los Angeles' leadership believed it needed a vibrant downtown

³ It is a far more likely that in the absence of the STAPLES Center and L.A. LIVE being built in downtown Los Angeles the residential and commercial activity that took place in the center city would have taken place elsewhere in the County or region. San Diego's size makes it likely that the development in the Ballpark District would have taken place elsewhere in the city. Rather than debate outcomes for Los Angeles, Professor Zimbalist's observation while not accurate is accepted as its implications for Edmonton and its policies as well as for Los Angeles and its policies is not necessarily germane.

with a far different image than what existed in the mid-1990s. That too has been achieved. Relative to Los Angeles' goals for its downtown area, the following appeared in the New York Times on February 17, 2011.

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**WATCH
TRAILER**

February 17, 2011

36 Hours in Downtown Los Angeles

By CHRIS COLIN

THE sprawl, the scale, all that freeway time — for many, Los Angeles is an acquired taste. But not downtown. New York-like in its density and mishmash, the long-blighted center has become an accessible, pedestrian-friendly destination in recent years; Angelenos walk around en masse, using their actual legs. The immense L.A. Live entertainment complex is largely responsible for this comeback, but the studiously vintage bars and imaginative restaurants that seem to open every other day are also part of the revival. Skid Row and the drifts of homeless camps haven't vanished altogether, and the grittiness still varies by block. But this part of town is alive again, in ways that make sense even to an outsider.

Friday

4 p.m.

1) DO THE CRAWL

The Downtown Art Walk — a party-in-the-streets bonanza that draws thousands of revelers the second Thursday of every month — is one way to experience the area's robust art scene. But you can do your own art walk anytime, and you should. Lured by low rents, a number of impressive galleries have found a home here, many of them on Chung King Road, a pedestrian alley strung with lanterns in Chinatown. For starters: The Box (977 Chung King Road; 213-625-1747; theboxla.com), Jancar Gallery (961 Chung King Road; 213-625-2522; jancargallery.com), Charlie James Gallery (975 Chung King Road; 213-687-0844; cjamesgallery.com) and Sabina Lee Gallery (971 Chung King Road; 213-620-9404; sabinaleegallery.com). The shows are intimate and occasionally provocative, featuring a broad array of contemporary artists: William Powhida, Orly Cogan and others. Most galleries stay open till 6 p.m.; Jancar closes at 5 on Fridays.

7:30 p.m.

2) THE CITY AT ITS BRIGHTEST

Whether you're catching a Lakers game, touring the Grammy Museum or attending a concert at the Nokia Theater, there is always something splashy to do at the 27-acre, \$2.5 billion

sports and entertainment behemoth that is L.A. Live (800 West Olympic Boulevard; 213-763-5483; lalive.com). Just strolling the Tokyo-ish Nokia Plaza — 20,000 square feet of LED signage — is diverting. An array of restaurants and bars is clustered at the periphery, but as with Times Square, many visitors just prefer to stroll around this giant pedestrian zone, trying to take it all in.

10 p.m.

3) A LATE, GREAT BITE

Gorbals (501 South Spring Street; 213-488-3408; thegorbalsla.com) is one of the more fantastic — and odd — downtown dining options. The chef and owner, a previous “Top Chef” winner, is part-Scottish and part-Israeli, and his hybrid concoctions are terrific. My banh mi poutine merged Quebec and Vietnam in ways criminally neglected until now. Bacon-wrapped matzo balls, anyone? Small plates range from \$6 to \$16. The casual restaurant is tucked into the lobby of the old Alexandria Hotel, a well-worn but charming landmark where Bogart, Chaplin and Garbo once roamed the halls.

Saturday

9 a.m.

4) ON THE NICKEL

The maple bacon doughnut is a stand-out on the breakfast menu at the new but ageless Nickel Diner (524 South Main Street; 213-623-8301; nickeldiner.com). The rest is mostly well-executed diner food, about \$7 to \$10 per dish. What’s remarkable is the location — until recently, this block was one of Skid Row’s most notorious. It’s a testament to downtown’s revival that the intersection of Main and Fifth (hence “Nickel”) is now home to a place where people line up for tables.

10:30 a.m.

5) NICE THREADS

The 100-block Fashion District mixes high and low seamlessly. Though many shops sell wholesale only, you can still find a wide selection of deeply discounted designer clothes, fabric and accessories. The jumbled shops and warehouses at Ninth and Los Angeles Streets are a good place to start (feel free to bargain). And don’t miss the rowdier Sartee Alley (thesanteealley.com), where cheap meets weird in a thoroughly Los Angeles way. In this chaotic open-air bazaar, energetic vendors hawk the impressive (perfect knock-off handbags) and the odd (toy frogs emblazoned with gang insignias). For a more organized Fashion District

expedition, Christine Silvestri of Urban Shopping Adventures (213-683-9715; urbanshoppingadventures.com) leads three-hour romps, tailored to your particular agenda and with an insider's radar for the best finds; the tours cost \$36 a person, with a minimum of two people.

1 p.m.

6) ACCESSIBLE ARCHITECTURE

The arrival of the conductor Gustavo Dudamel at the Los Angeles Philharmonic has brought new crowds to the symphony, but the Walt Disney Concert Hall (111 South Grand Avenue; 323-850-2000; laphil.com) — Frank Gehry's deconstructivist celebration of all that is big, curvy and shiny — deserves a visit even without a ticket. Bring a picnic and wind your way along the semi-circular outer staircase up to an excellent city vista and rooftop garden oasis. Free guided tours and self-guided audio tours are available most days. Check first (musiccenter.org/visit/tours.html) for schedules.

7 p.m.

7) LAZY BONES

Since 2010, Little Tokyo's Lazy Ox Canteen (241 South San Pedro Street; 213-626-5299; lazyoxcanteen.com) has been the kind of tucked-away gastropub people love to insist is the city's best. Casual and buzzing, the bistro's long menu features adventurous delicacies, from trotters to crispy pig's ears to lamb neck hash. It's hard to pin the cuisine to a specific origin, but a penchant for bold, meat-centric comfort food is evident. Get several small plates, most \$7 to \$15 each.

8:30 p.m.

8) PICKA SHOW, ANY SHOW

If you're downtown for a performance, chances are it's a sprawling affair at L.A. Live. But a handful of smaller settings offer funkier alternatives. The Redcat Theater (631 West Second Street; 213-237-2800; redcat.org) hosts all manner of experimental performances — a recent Saturday featured theater, dance, puppetry and live music from a Slovene-Latvian art collaboration. Club Mayan (1038 South Hill Street; 213-746-4287; clubmayan.com; \$12 entry fee before 10:30, \$20 after), an ornate old dance club most nights, occasionally hosts mad events like Lucha VaVoom, which combines burlesque and Mexican wrestling. And the Smell (247 South Main Street; thesmell.org; \$5 most nights), a likably grimy, volunteer-run space, hosts very small bands circled by swaying teenagers.

10:30 p.m.

9) DRINK AS IF IT'S ILLEGAL

Was Los Angeles a hoot during Prohibition? No need to guess, thanks to a slew of meticulously old-timey new bars that exploit the wonderful history of old Los Angeles. From upscale speakeasy (the Varnish; 118 East Sixth Street; 213-622-9999; thevarnishbar.com) to converted power plant-chic (the Edison; 108 West Second Street; 213-613-0000; edisondowntown.com) to an old bank vault (the Crocker Club; 453 South Spring Street; 213-239-9099; crockerclub.com), these spiffy places do set decoration as only Los Angeles can. And fussily delicious artisanal cocktails are as plentiful as you'd imagine, most in the \$9 to \$14 range. The well-scrubbed will also enjoy the swanky Seven Grand (515 West Seventh Street; 213-614-0737; sevengrand.la), while the well-scuffed may feel more at home at La Cita Bar (336 South Hill Street; 213-687-7111; lacitabar.com).

Sunday

9 a.m.

10) DIAMOND IN THE ROUGH

The Bamboo Plaza isn't as elegant as its name, but on the second floor of this run-down little Chinatown mall is the Empress Pavilion (988 North Hill Street, suite 201; 213-617-9898; empresspavilion.com), the dim sum mecca that's lured Angelenos here since well before the downtown revival. The vast dining room holds all the appeal of a hotel conference room, but that only underscores the focus on the shrimp har gow, the pork buns and dozens of other specialties, generally \$2 to \$5 each. There will be crowds.

11 a.m.

11) BIG ART

That rare breed who has gone from gallery owner to director of a significant art, Jeffrey Deitch has thrilled (and vexed) critics since taking over the esteemed Museum of Contemporary Art last year. Come see for yourself what he's done with the place, and its renowned collection, including works by Rothko, Oldenburg, Lichterstein and Rauschenberg. The museum is spread over three locations; downtown is the main one (250 South Grand Avenue; 213-626-6222; moca.org).

IF YOU GO

Rising from the L.A. Live wastage is a gleaming new two-hotel complex, at 900 West Olympic

Boulevard, part **JW Marriott** (213-765-8600; lalive.com/stay/jwmarriott) and part **Ritz-Carlton** (213-743-8800; lalive.com/stay/ritzcarlton). The 878 rooms at the JW start at \$189, the 123 rooms at the Ritz at \$299, and even the most basic deliver a supreme pampering.

The 24th floor of the Ritz is also home to WP24, the celebrity chef Wolfgang Puck's take on modern Chinese cuisine.

It doesn't gleam, but the Moroccan-themed **Figueroa Hotel** (939 South Figueroa Street; 213-627-8971; figueroahotel.com) reflects an equally appealing side of downtown. Every nook of the 86-year-old building features some warm and worn décor reminiscent of Casablanca, and hours can be passed at the tranquil outdoor pool and bar. Rooms start at \$148.

This article has been revised to reflect the following correction:

Correction: February 19, 2011

An earlier version of a map with this article misspelled part of the name of a street in Los Angeles. It is Cesar Chavez Avenue, not Sezar.

Suffice to say no one went on a 36-hour walking tour of downtown Los Angeles prior to the building of STAPLES Center. In San Diego, a new neighborhood complete with affordable housing now exists. While it is possible that the Gas Lamp district might have eventually spurned the building of a new neighborhood, that area now exists. At the time the Ballpark District was planned by San Diego that possible residential community in the downtown area had yet to occur. After the building of the Ballpark District a new downtown neighborhood does exist.

Downtown Edmonton

Edmonton's City Council has already discussed and supported a plan to revitalize the downtown area. Repeating that discussion seems non-productive and it has long been recognized that deflecting development from elsewhere to achieve a different image and vitality are desirable public policy objectives for most cities. Professor Zimbalist's report did not reflect on the process and work that underpins that plan and the full-range of issues discussed, analyzed, and debated. Cities from New York to Los Angeles and from Toronto to Dallas have engineered development options to deflect development into their downtown cores to retard decay. The lessons from the delays in Dallas – a critical issue for Professor Zimbalist – are at the heart of some of the recommendations made by Professor Mason and I to the city manager's office. Indeed, we did not ignore the slower pace of development in Dallas. Instead we have learned from what took place and passed those lessons along to the City of Edmonton.

As Professor Zimbalist noted, the most successful redevelopment plans involve substantial levels of private investment, a point underscored in my 2010 book. With Edmonton engaged in good-faith negotiations with its partner, the Edmonton Oilers, it seems prudent to place one's confidence in the Council, Mayor, and Manager to insure that the lessons learned from the experiences of other cities are guiding their efforts. There are far more reasons to believe that the downtown redevelopment plan, approved by the Edmonton City Council, will be complemented and indeed pushed forward by the partnership the city will forge with the Oilers. The City has taken full advantage of the insights and advice from several cities and from many experts in the process of the negotiations with the Oilers. At the moment when success may be within reach it seems ill advised to suggest that re-analysis of what has been studied and reviewed for more than four years now needs a re-assessment. The conditions Dr. Zimbalist outlines as defining a successful deal may well be realized. The deflection of economic activity into downtown Edmonton it is hoped and anticipated will produce the same set of results that other cities have enjoyed.

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