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COMMITTEE ON OVERSIGHT AND
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COMMITTEE ON EDUCATION AND LABOR

Statement of Dennis J. Kucinich
Chairman, Domestic Policy Subcommittee
Hearing on Public Infrastructure and Professional Sports Stadiums
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The Department of Transportation says there are 12,176 structurally deficient urban bridges in America today.[1] One of those bridges collapsed in Minneapolis, Minnesota, last August, killing 13 people. Our bridges, roads, schools, and water purification systems are all aging; many are in need of repair and replacement. Assessing the whole picture, the American Society of Civil Engineers has concluded, America's infrastructure is "crumbling."

But the Minnesota Twins got public funding approved for a new stadium just the year before the I-35W bridge collapsed. The Yankees are getting a new stadium valued at over $1 billion, even though New York City alone has 50 structurally deficient bridges. In Cleveland, local and state government gave the Browns, Indians and Cavaliers new stadiums, yet we have 5 structurally deficient bridges in the county. The story is the same around the nation. Look at the slide:

Baltimore has two publicly financed sports stadiums, while the county also has 8 structurally deficient bridges.

Philadelphia has three publicly financed sports stadiums, while the county also has 42 structurally deficient bridges.

And Chicago has two publicly financed sports stadiums, while it has a whopping 82 structurally deficient bridges.

Does public funding of professional sports stadiums divert funds and attention from infrastructure maintenance? Consider the recent case of Minnesota. Since taking office in 2003, Minnesota Governor Tim Pawlenty consistently opposed increases to the gasoline tax, even vetoing them at least once. The gasoline tax increase would have funded bridge and road repair. But he signed a bill allowing Hennepin County to raise its county sales tax without going to the voters as county law mandates. The county tax increase was dedicated to paying the debt service on the bonds for a new Twins stadium.

[1] 2006 Status of the Nation's Highways, Bridges, and Transit: Conditions & Performance, Table "Bridge Deficiencies by Functional System, 2004," p. 3-19 (2006).

The Minnesota experience is not unique. State and local officials continue to invest public funds in professional sports stadiums in spite of the persistence of "crumbling" bridges, roads and schools. Federal taxpayers continue to subsidize these giveaways by financing new professional sports stadiums with tax exempt bonds.

If ever there was a topic meriting "oversight and government reform," we have one here.

Repairing and maintaining America's roads and bridges is one of the key governmental responsibilities, and it is a significant burden on a state and local taxpayers. According to the Congressional Budget Office, 63% of state and local infrastructure spending is devoted to operations and maintenance. That amounted to $151 billion in 2004, and those funds are derived from gasoline taxes and general revenues. Most of the structurally deficient bridges are owned by states and localities. According to the US Department of Transportation, 24,061 of the nation's 77,793 structurally deficient bridges are owned by states, and 55,390 of them are owned by local governments.[2] Obviously, state and local governments are having a hard time keeping up with the rising cost of bridge maintenance.

Now along comes professional sports team owners -- and to that problem, they add another: They want a new stadium. And not just a new stadium, but new parking facilities, maybe a dedicated ramp from the highway, and the new stadium will have more luxury boxes, even at the expense of fan seating. They want it financed through tax exempt bonds that the city and state would guarantee, because the costs of construction are lower with the reduced interest charges on tax exempt bonds.

What happens? Cities and states compete with one another to offer the larger package of publicly financed incentives. According to one of our witnesses today, Professor Judith Grant Long of Harvard, in both absolute and relative terms, the public spends a lot on professional sports stadiums. In her written testimony, Professor Long finds that the public will have spent $33 billion on professional sports stadiums by the time the last facility currently scheduled for construction is completed. Taxpayers also assume a large share of costs for new professional sports facilities. Among new professional sports facilities built since 1990, the average public share of costs is estimated to be between 55% and 85%.

Clearly, having a professional sports team in one's city is an expensive item. But it is also a bad investment. There a few things economists agree on, but the profession is unanimous on this point. At our last hearing on this topic, sports economist Dr. Brad Humphreys of the University of Illinois stated, "I have not found any evidence whatsoever suggesting that professional sports stadiums create jobs, raise income, or raise local tax revenues." Of course, there is always the warm and fuzzy feeling of pride in having a team. But that is no doubt overrated: it doesn't create jobs, it doesn't raise revenues, and it doesn't grow the economy.

But it is clear that public subsidies for professional sports stadium do enrich the private owners of the teams. Consider the Detroit Tigers and the Detroit Lions. We will hear about them and their stadiums from one of our witnesses today. The value of the Detroit Tigers rose from $83 million in 1995 to $290 million in 2001, the year after the team moved into their new stadium. The Lions' increase in value after moving into their new stadium is even more dramatic, rising from $150 million in 1996 to $839 million in 2006.

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[2] *Ibid.*

Economic benefit to the team owners was certainly the case for President George W. Bush who, in 1989 spent about $600,000 to buy a small stake in the Texas Rangers baseball team. During his ownership, Mr. Bush and his co-investors were able to get voters to approve a sales tax increase to pay more than two-thirds of the cost of a new $191 million stadium for the Rangers as well as surrounding development. Mr. Bush and his partners also received a loan from the public authority charged with financing the stadium to cover their private share of the construction costs.

By 1994, the Rangers, in their new, publicly financed stadium, were sold for $250 million—a three-fold increase in value in merely five years and one that was in largely attributable to the new taxpayer subsidized stadium. Mr. Bush personally came away with a profit of $14.9 million. In this case, the tax-exempt financing indisputably benefited the owners of the Texas Rangers.

How is it that critical infrastructure needs go unfunded, while luxuries like professional sports stadiums are amply subsidized?

The first part of the question has been the subject of considerable discussion, dating back to the 1980's. For instance, in an article entitled, "Holding Government Officials Accountable for Infrastructure Maintenance," Ned Regan, the long-time Republican Comptroller of the State of New York, wrote:

> "[M]aintenance budgets are routinely starved by government at all levels. Neglect, not age, is the root cause of most infrastructure failures in this country. Simply put, deferring maintenance is a handy expedient for public officials faced with problems in balancing their budgets."

Regan identifies two problems that account for that. The first is that politicians like to get credit for what they do, and the credit is more noteworthy when you can "cut the ribbon" at the opening of a new facility. He writes:

> "[M]aintenance activities, while undeniably in the public interest, tend to be regarded as having low visibility and correspondingly low political payoff. A television news editor, for example, is unlikely to be interested in bridge maintenance. Moreover, the consequences of the failure to scrape and paint a bridge in a particular year are not evident at the time. People do not think that the bridge might collapse in the next year..."

The second problem is the lack of systematic planning, a lack of a democratic and transparent process in which infrastructure needs are evaluated. There is no process whereby decision-makers know, "based on sound evidence and rigorous analysis, what maintenance requirements are and what the costs of neglecting maintenance are likely to be. Such information could then be considered in the light of available resources when determining maintenance budgets."

That is accompanied by a lack of public information: "As long as the public remains uninformed bout the extent to which public assets are not being safeguarded, public officials will be encouraged to continue the prevailing pattern of neglect."[3]

[3] Edward Regan, "Holding Government Officials Accountable for Infrastructure Maintenance," in Restructuring the New York City Government: The Reemergence of Municipal Reform, Proceedings of The Academy of Political Science, Volume 37, Number 3 (1989).

This is the second time this Subcommittee has examined the merits and costs of public financing of professional sports stadiums. At our March 29, 2007 hearing, we examined the effectiveness of Congress' last attempt to curb the use of tax exempt financing for construction of professional sports stadiums. In 1986, Congress passed the Tax Reform Act, which changed the rules on tax exempt financing. Basically, the Act excluded professional sports stadiums from the list of exceptions to taxable private activity bonds.[4]

That should have closed the matter. But sports stadiums continued to be built, with more and more public money, according to Professor Long. When we discussed a specific case in detail with the Chief Counsel of the Internal Revenue Service, who is in charge of enforcing the regulations on tax exempt financing, we discovered that a significant loophole was being exploited that permitted professional sports teams the benefit of tax exempt financing for sports stadiums and their exclusive private use. In that hearing, we questioned the Chief Counsel about a "private letter ruling" that enabled the New York Yankees to benefit from tax exempt financing of the new Yankees Stadium, and a construction cost savings of $189.9 million, according to New York City's Independent Budget Office.[5]

Obviously, the '86 Act did not have the intended effect of curbing public financing of sports stadium construction. As Dennis Zimmerman testified at our previous hearing, "Since local taxpayers were expected to be reluctant to use general obligation debt to pay for stadium debt service, stadium bonds would wither. Unfortunately, that expectation was overwhelmed by the combination of the monopoly power of professional sports leagues that maintains excess demand for franchises and stadium proponents' use of pseudo-economic studies showing that stadiums pay for themselves."

Clearly, there is more work to be done. Our bridges should be safe. Our children's school buildings should be safe and conducive to learning. And the owners of professional sports teams should pay for their own stadiums. To the extent that the use of public monies to finance professional sports stadiums diverts funds and attention away from maintaining critical public infrastructure, my hope is that these hearings contribute to fixing the problem.

[4] Since 1968, bond issues are taxable if 1) more than 25% of the proceeds are to be used for a private business, and 2) more than 25% of the revenues for payment of the principal and interest (i.e. debt service) are derived from property used directly or indirectly in a private business. Failing one or both of these tests qualified a project for tax exempt financing. A number of activities were deemed by Congress to have sufficient public purpose that they would be excepted from simple determination by the two-test approach. Prior to 1986, professional sports stadiums were listed, along with airports, multiple dwelling residential real property, sewage facilities and others. The 1986 Tax Reform Act made a number of relevant changes. First, it changed the thresholds to 10 percent, and second, it removed sports facilities from the list of exceptions.

[5] Letter from George Sweeting, Deputy Director, Independent Budget Office (August 9, 2007).