

Testimony of

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**Professional Sport Stadiums:
Do They Divert Public Funds From Critical Public Infrastructure?**

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Thank you, Chairman Kucinich, Ranking Member Issa, and members of the Domestic Policy Subcommittee, for the opportunity to speak with you this afternoon. I am a professor at the Harvard University Graduate School of Design, and one of my areas of expertise is the financing and development of sports, convention, and tourist facilities.

The question before the committee today is whether or not public subsidies for professional sports facilities divert funds and attention away from America's public infrastructure. My testimony focuses on three aspects of this issue:

- How much public money has been spent subsidizing major league sports facilities?
- What portion of this public funding has made use of using tax-exempt financing?
- Are public subsidies for major league sports facilities diverting funds from the repair and maintenance of critical public infrastructure?

Measuring the Cost of Public Subsidies for Major League Sports Facilities

How much public money has been spent, and continues to be spent, to subsidize new major league sports facilities? This question is important because the ongoing debate about the appropriateness of these public subsidies depends critically on our ability to accurately measure the nature and magnitude of the underlying costs.

Starting with cost figures provided by the sports industry, public funding for the 82 new facilities opened between 1990 and 2006 totals approximately \$12 billion dollars. This estimate is based on an average facility price tag of \$253 million (in 2006 dollars), an average public subsidy of \$144 million, translating to an average public share of facility costs measuring 57 percent.

My research summarized in Table 1 below, shows that these figures are the tip of the proverbial iceberg. I argue that governments pay far more to participate in the development of major league sports facilities than is commonly understood due to the routine omission of public subsidies for land, infrastructure, as well as the ongoing costs of operations, capital improvements, municipal services, and foregone property taxes.

<p style="text-align: center;">TABLE 1: Public Funding for Major League Sports Facilities ¹ Facilities Opened from 1990 to 2006 ² (in 2006 Dollars)</p>			
	<i>Industry Estimates</i>	<i>Adjusted for Land and Infrastructure</i>	<i>Adjusted for Ongoing Expenses (Net of Revenues) and Foregone Property Taxes</i>
<i>Average Facility Cost</i>	\$253 Million	\$281 Million	\$281 Million
<i>Average Public Subsidy</i>	\$144 Million	\$169 Million	\$225 Million
<i>Average Public Share</i>	57%	60%	80%
<i>Total Public Subsidy</i>	\$12.0 Billion	\$14.0 Billion	\$18.5 Billion

1. Major League = MLB, NFL, NBA, NHL

2. A total of 82 new or substantially renovated facilities were opened in between 1990 and 2006.

Adjusting for these omissions, my “full count” estimate of total public funding for these same 82 facilities is \$18.5 billion dollars—representing a 55 percent increase over industry

figures, or \$6.5 billion dollars in uncounted costs. These figures are based on an average of \$80 million dollars of uncounted costs for each individual facility, increasing the average public subsidy to \$225 million, and the average public share of total costs from 57 to 80 percent.

My adjusted public cost data can also be applied to broader time periods. Over the period from 1950 to 2006, I estimate that the public has spent just over \$27 billion dollars subsidizing the capital costs (building, land, infrastructure) for 167 major league sports facilities—an average subsidy of \$155 million per facility (2006 dollars).

Add the \$6.5 billion dollars in uncounted ongoing costs and foregone property tax revenues for the period from 1990 to 2006, and the total public cost increases to \$31.5 billion dollars.

Add the seven (7) new facilities scheduled to open from 2007 to 2010, and the total public cost increases by another \$1.5 billion to just over \$33 billion dollars.

Measuring the Cost to the Public of Tax-Exempt Financing

What portion of the \$18.5 billion dollars in public subsidies for sports facilities delivered between 1990 and 2006 used tax-exempt financing? This is an important question because of the ongoing debate about the appropriateness of using tax-exempt bonds to finance sports facilities, since they offer a discounted cost of capital to private individuals, paid for through a reduction in federal tax revenues.

Interpreting my preliminary aggregate data conservatively, I estimate that approximately \$10 billion dollars of tax-exempt bonds have been issued to fund major league sports facilities for the 82 new facilities opened from 1990 to 2006. Based on the estimated \$18.5 billion total public funding over this period (Table 1), the implication is that the majority of those funds—over 55 percent—are delivered through tax-exempt financing. Assuming a participation rate of 80 percent, or 65 out of 82 facilities, the average amount of tax-exempt debt issued is \$150 million.

Note that I use the term “preliminary” data because I have yet finished collecting high-quality data on the nature and magnitude of tax-exempt financing for each individual facility. I do, however, have data for a sufficiently large sample to provide this estimate with reasonable confidence. I also deliver my estimate conservatively, both in terms of participation rate and average debt issue.

It is likely that the actual figures for tax-exempt financing are higher. An informal survey conducted by the Washington Post in 2003, where the sample was chosen to highlight issues of tax-exempt financing, yielded a participation rate of 95 percent and average debt issue of \$185 million. Using their assumptions, my estimate of the impact of tax-exempt financing would increase dramatically: 85 percent of total public funding would be attributed to tax-exempt bonds, or 85 percent of all public funding from 1990 to 2006, at an average debt issue of \$200 million per facility.

Regardless of whether the actual figure lays closer 55 percent or 85 percent, it is clear that tax-exempt financing is the major instrument of subsidy delivery in the context of major league sports facilities during recent years. What is less clear is whether the total amount of public funding for sports facilities would be lower—and how much lower it would be—if the use of tax-exempt bond to finance sports facilities had been prohibited.

On a smaller scale, but still worth noting, is an additional uncounted public cost associated with the use of tax-exempt financing, whereby taxpayers are paying a share of reduced interest costs through reduced federal tax revenues. Based my conservative estimate of 65 out of 82 facilities making use of tax-exempt financing at an average debt issue of \$150 million, then a two-percentage-point spread between the tax-exempt and market interest rates would result in a total loss of revenue to the US treasury of approximately \$195 million annually. Assuming a declining balance over twenty years, the total lost federal revenues would be close to \$2 billion dollars.

That the incidence of tax-exempt financing costs fall nationally on taxpayers raises a point ably articulated by Mr. Neil DeMause, who in testimony earlier this year, points out that

Kansas City Royals fans would no doubt not be pleased to learn that their tax dollars are going to help make the New York Yankees even richer.

Again, it is likely that the actual loss of federal revenues due to tax-exempt financing is higher. As an example, to finance the Seattle Mariners' new ballpark in 1997, King County issued \$310 million in tax-exempt bonds carrying an interest rate of 5.9 percent, at a time when equally-rated taxable bonds issued by King County carried an interest rate of 8 percent. The difference in rates amounted to \$6 million in lost federal revenues.

Are public subsidies for major league sports facilities diverting funds from public infrastructure?

Could this \$18.5 billion dollars have been better spent by investing in critical public infrastructure? This question of opportunity cost is particularly important given the recent and solemn reminder in Minneapolis where a bridge collapsed killing twelve people one day before ground was to be broken on a new major league ballpark financed with close to \$400 million in public funds.

A quick look at the numbers reveals that public money spent on major league sports facilities is pocket change relative to the money needed to maintain and upgrade critical infrastructure. According to the University of Alabama *Aging Infrastructure Systems Center of Excellence*, it takes approximately \$100 billion annually to maintain the nation's infrastructure at its current level of service, and over the next five years an estimated \$1.6 trillion is required to bring the nation's infrastructure up to acceptable standards.

Viewed nationally, if public funding for sports facilities could indeed be redirected, the magnitude of spending comes nowhere near to solving the infrastructure problem. Even if the entire \$18.5 billion public dollars spent on sports facilities over the past sixteen years could be retroactively applied to infrastructure, only three months of current operating costs could be paid. In annual terms the picture is bleaker still, since annual public spending on major league sports facilities is between \$1 to \$2 billion dollars per year, or about \$10 million per facility. Moreover, these figures assume that rate of new construction will continue,

whereas by 2010 over 90 percent of the major league facility stock will have been replaced, and a lull in activity is anticipated.

Viewed locally, however, the opportunity cost of public funding for sports facilities is more tangible. If the \$1 to \$2 billion dollars were diverted to the 50-plus US cities that host major league sports facilities, and the impact is sizeable. Recapturing \$10 million dollars per facility per year—and most of these cities have at least two—would go a long way towards ensuring effective management, maintenance and upgrading of local public infrastructure.

It is also helpful to consider diversions other than transportation infrastructure, since the mismatch in the relative scale of these two public spending issues may quite mistakenly infer that public funding of sports facilities is a token amount and therefore insignificant.

Nationally, \$1 billion per year could support a host of worthy public programs: To take one example, \$100 million is the amount the Centers for Disease Control and Prevention planned to distribute to help states boost their smallpox vaccination programs in 2003.

Locally, these monies could be better spent supporting local schools, health care services, and job creation programs: \$10 million dollars per year could support the creation of two hundred local jobs, assuming a cost of \$50,000 per job.

Since the vast majority of these new facilities have been built in urban areas, there may be a stark juxtaposition of the needs of low- and moderate-income residents living near the facilities, versus those of the high-income team owners, athletes, and facility patrons. The contrast is economic, where poorer residents often can only afford to go to game events if they are somehow employed in the facility, as well as physical, with a high degree of amenity and security in the immediate environs of the facility, buffering patrons from these same residents. Tax-exempt financing exacerbates these distributional impacts, since the significant benefits of these bonds accrue to a small group of private individuals at a significant cost to the general public, and with few corresponding public benefits, particularly for local residents.

So it appears that there are many ways this money could be better spent.

Yet under existing regulations, it is unreasonable to expect that state and local decision-makers will be able to fend off the considerable political pressure exerted by private individuals to gain access the benefits of tax-exempt financing.

Diverting public funds away from sports facilities will require removing this authority from the state and local political arena through a prohibition of the use of tax-exempt funds for sports facilities. There is absolutely no evidence that \$18.5 billion dollars in public benefits have been generated since 1990 to compensate for the \$18.5 billion dollars in public costs. Variations on the loophole, including recent creative use of payments-in-lieu-of-taxes should be similarly prohibited. The opportunity cost is significant, viewed in the context of infrastructure or any of a host of other important public services, and competition between local jurisdictions is becoming increasingly counter-productive when measured at the national level.

Critics of such a prohibition may argue that the private-activity substituted for sports facilities may not fare any better in terms of generating public benefits. If this turns out to be true, then a prohibition on that activity may be required, and so on. In this sense, public policies and the regulations that implement them are living things, subject to fine-tuning over time. It is a particular responsibility of those of us engaged in this collective endeavor to act when change is needed. Our goal should be to ensure that tax-exempt financing is used for its original intent as set out in 1913—that is, aiding the provision public infrastructure that provides truly public benefits—and to stop the diversion of scarce public funds to a select few private individuals and industries.