Using tax money to finance stadiums and corporate development is trendy, but of questionable value

David M. Kall | Wednesday, September 21, 2016

New stadium construction

In an exclusive interview with Yahoo!Finance earlier this month, Sheldon Adelson, the casino magnate, revealed that he wants Las Vegas to build a new $1.9 billion, 65,000-seat stadium, to lure the NFL's Oakland Raiders to move to Sin City. It would be the most expensive stadium ever built. Adelson would contribute $650 million of his own money to the project; Mark Davis, the Raiders' owner, pledged $500 million and committed to moving the team; and the rest, $750 million, would be funded publicly, by raising the hotel room tax in Clark County, Nevada, by less than 1 percent.

Such an ambitious project is controversial. Clark County Commissioner Christina Giunchigliani disapproves, on the grounds that "[t]here has never been a public-private partnership that has built a stadium that has been a good investment for the public." The local Culinary Union agrees, asserting that Adelson and the NFL should pay for it. Similarly, the Las Vegas Convention Center is seeking expansion, which would also require an increase in Clark County hotel room tax. In January, the CEO of MGM Resorts declared that "[w]e do not support room taxes being diverted to a stadium when we have this just tremendous, tremendous, dire need at our convention center… Let's go to the must-haves before we go to the nice-to-haves."

In addition, after the Southern Nevada Tourism Infrastructure Committee voted last week to send a plan to Gov. Brian Sandoval approving of the three-way funding split, a *Reno Gazette-Journal* reporter questioned the "spectacle," opining that it raises "troubling questions about the state's system of governance, which is looking more Third World than ever." Recognizing certain benefits to the stadium project, the author suggested that other state needs, like education, should take priority; that the public should not be paying for any of it given Adelson's wealth; that there should be a cap on the amount of public money spent; and that taxes have already gone up, making a new one difficult to justify.

Corporate development

Under Armour, the performance apparel company that former University of Maryland football player Kevin Plank founded in 1996, wants to build a new 50-acre campus in Baltimore. The new campus would be on land that Plank's private development firm, Sagamore Development Co. LLC, acquired in 2014, in Port Covington, Maryland, reported Bizjournals.com. Between 1904 and the 1970s, the land in Port Covington was used as a railroad terminal; the site was abandoned in 1988, but Wal-Mart built a Sam's Club store on it and operated there between 2012 and January of this year.

In March, Bizjournals.com reported that Under Armour is seeking to fund its new Port Covington headquarters, in part, with $535 million in tax increment financing (TIF) from Baltimore City for the redevelopment, which encompasses 266 acres. This would pay for roads, sewers, 40 acres of public park land, bike paths and 17 streets. A new 50-acre waterfront campus is also part of the plan.

GoodJobsFirst, the corporate subsidy tracker, describes a tax increment financing scheme as one in which some portion of a company's taxes are refunded or diverted to help finance its development. The tracker frowns on TIFs because they are increasingly used to fund big box retail development that contributes more to sprawl than poverty reduction, rendering the resulting jobs inaccessible to inner city residents most in need of them. In addition, TIF is often used to finance development that would happen anyway.

Think tanks weigh in on publicly funded stadium and megadeal development initiatives

In a September paper titled "Tax-Exempt Municipal Bonds and the Financing Of Professional Sports Stadiums," the Brookings Institution ultimately concluded that the justifications for public funding for stadiums are weak. When that funding comes from the federal government, the case deteriorates even more, because, if there are any benefits, they are local, not national.

Noting that many stadiums are funded by tax-exempt municipal bonds issued by the cities in which the stadiums are located, the Brookings' paper focused on why the federal government should stop spending billions on private sports stadiums. Using the 2009 Yankee Stadium project as an example, the authors pointed out the following:

> “Because the interest earned on the municipal bonds is exempt from federal taxes, a large amount of tax revenue that would have been collected—had the bonds been issued as taxable—went toward the construction of the stadium. In other words, the Yankees received a federal subsidy to build their stadium. How much? About $431 million. That's a lot of money, but it gets worse.
>
> The loss in federal tax revenues was even higher than the subsidy to the stadium. High-income taxpayers holding the bonds receive a windfall tax break, resulting in an even greater loss of revenue to the federal government.”

More locally, the Pew Charitable Trusts acknowledged the ongoing debate of publicly financed stadiums in a July blog. Despite the promise of more good-paying jobs,

> “[M]any economists maintain that states and cities that help pay for new stadiums and arenas rarely get their money's worth. Teams tout new jobs created by the arenas, but construction jobs are temporary, and ushers and concession workers work far less than 40 hours a week.
>
> Furthermore, when local and state governments agree to pony up money for stadiums, taxpayers are on the hook for years – sometimes even after the team leaves town. St. Louis, for example, is still paying $6 million a year on debt from building the Edward Jones Dome, the old home of the Rams that opened in 1995, despite the team's move to California. The debt is financed by a hotel tax and taxes on “game day” revenues like concessions and parking.”

A research analyst at the National Conference of State Legislatures (NCSL), in reference to the Los Angeles deal, blamed teams for “hold[ing] up cities and states for sweet financing deals by threatening to move. Clearly major league professional sports teams are all fully capable of paying for stadiums themselves.”

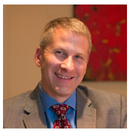
Acknowledging the above-described hit that tax free municipal bonds impose on federal revenue, Pew cited a Bloomberg calculation in which the $17 billion in tax-exempt debt used to build stadiums since 1986 would cost taxpayers $4 billion.

As for publicly financed corporate development, GoodJobsFirst is out with a September 2016 report called *Smart Skills versus Mindless Megadeals: Cost-Effective Workforce Development versus Costly “Buffalo Hunting,” with Proven Policy Solutions*. The report states that while 31 out of 33 low-cost, low-risk workforce development programs cost less than $10,000 per job, the average cost to taxpayers of megadeals is more than $658,000 per job. A megadeal is a subsidy award with a total state and local cost of $75 million or more.

Buffalo hunting, the term that GoodJobsFirst gives to the strategy of spending a lot on a few companies, is both risky and wasteful, the authors determined. This is because these costly megadeals “can never break even…much less generate positive taxpayer return on investment. That is, workers at such facilities will never pay that much more in taxes than the public services they and their dependents consume.”

In contrast, the low-cost, low-risk workforce development programs are consistently cost-effective, according to GoodJobsFirst. Even if the trained workers later become dislocated, their skills will remain in the labor market, benefiting other employers.

In the end, one of the co-authors concluded, “[s]tates and localities should put their buffalo muskets in a museum where they belong. We can spend less and get more.”



David M. Kall

Team member bio