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THE MAYOR'S PROPOSED STADIUM DEAL:
Many Financial Risks, Few Benefits for the District

By Ed Lazere

The details of Mayor Williams' $440 million baseball stadium plan are included in a proposed contract drafted with Major League Baseball and in financing legislation introduced in October. An analysis of these documents shows that the plan places significant financial burdens and tremendous risks on the District while providing few benefits. The team's owners, by contrast, would face few risks and would get nearly all of the benefits.

- The final costs of the stadium could far exceed the current $440 million estimate, with all additional costs falling on the District.
- The contract limits the financial risks faced by the team owners. Annual increases in rent payments, for example, would be modest, and the owners would pay no rent increase if stadium attendance in the prior year was low.
- While the District would build the stadium and cover most of the financing costs, the team owners would be entitled to virtually all revenues generated at the stadium. The team also would control use of the stadium, including most of the days when there are no baseball games.

A *Washington Post* analysis found the mayor's offer was "one of the most generous deals some Major League Baseball officials had seen."[1] A key beneficiary of the city's offer are the 29 owners of the other Major League Baseball teams, who collectively own the Expos. They stand to profit handsomely from the proposed contract, since it makes the Expos an especially attractive team to own and thus increases the team's likely selling price. Although the Expos were purchased in 2002 for $120 million and have performed poorly since then, the team is expected to be sold for more than $300 million.

These findings are particularly significant considering the solid body of research showing that baseball stadiums typically do not promote economic development. A recent letter signed by more than 90 economists states that a stadium in the District cannot be expected to increase employment or stimulate development around the stadium. (See box on page 3).

[1] *Washington Post*, "Lucrative Deal On Stadium Won Baseball Over," September 30, 2004, page A1.

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This suggests that both the contract and legislation should be modified to limit the District's financial burden and risks. The DC Council can take such actions when it considers these measures. The Council will hold a hearing on the financing legislation on October 28 and is expected to begin voting on it in November. It is not clear when the Council will review the proposed contract.

Stadium Costs Likely Will Exceed $440 million; Financial Risks All Fall on DC

The proposed plan for a new baseball stadium has been described as a $440 million endeavor, but the total costs are likely to be far higher than that. This is true in part because the $440 million figure does not include the following costs associated with building and maintaining a stadium:

- **Capital repairs:** Under the proposed contract, the District would be responsible for all major capital repairs at the stadium in the future. The proposed contract requires the District to establish a $5 million fund for these repairs and to contribute $1.5 million to the fund each year. Over 30 years, this is an additional cost of $50 million.

- **Transportation:** The District is likely to incur expenses for transportation upgrades needed to allow easy access to the stadium. These expenses could be substantial.

- **Security and other services outside the stadium:** The District will have to provide security and traffic personnel outside the stadium for each game.

Moreover, stadium costs could rise if elements of the $440 million plan turn out to be higher than expected. Under the proposed contract, any factors that raise costs above the current estimate would be borne entirely by the District.

- **Construction cost increases:** Under the proposed contract, the city would cover 100 percent of additional costs if renovation expenses at RFK stadium exceed $13 million or if the new stadium's construction costs exceed current estimates. This could occur, for example, if the costs of buying land, conducting environmental remediation, or actual construction costs rise. It is not uncommon for major construction projects, including stadiums, to exceed initial budgets. Cleveland's Jacobs Field stadium cost $462 million to build, $120 million more than its projected cost.

- **Higher-than-expected capital repair needs:** The District also would have to provide additional funding for future capital repairs if the costs exceed the $50 million the city already plans to set aside.

It is worth noting that the Williams Administration already anticipates the possibility that stadium costs could exceed $440 million.

- The mayor's proposed stadium financing legislation would allow the city to issue $500 million in bonds, not $440 million.

- The financing plan would raise more revenues than needed to meet the annual bond repayment costs. The proposed stadium legislation would allow the District to use these additional funds to meet expenses not covered by the $500 million bond. These revenues could be tapped if stadium costs exceed $500 million.

Other Risks Also Fall on the District and Not on Team Owners

In addition to placing the entire burden of cost overruns on the District, the stadium contract and financing legislation place further financial risks on the District in ways that limit the risks faced by the team owners.

- Under the proposed contract, the District would have to pay the team for lost profits if a stadium is not ready for use by March 2008, even though RFK stadium would be available for use.

- The team's main contribution to the stadium – beyond basic maintenance – would be an annual lease payment to the District. The lease would be set at $5.5 million per year. The lease amount would rise just two percent per year, which is likely to be less than the rate of inflation over time. Moreover, the lease amount would not rise if stadium attendance in the prior year fell below the league median for the prior three years. This means that the expenses faced by the team owners would be very stable and predictable from year to year.

- The proposed stadium financing plan would use taxes generated at the stadium — on tickets, concessions, and parking — to cover part of the bond repayment costs. These revenues could be jeopardized in some years, however, if a strike or other factors result in less than a full season of play. Yet the stadium bonds still would have to be repaid. It is not clear whether the other stadium financing sources — a tax on DC businesses and the lease — would be sufficient to meet annual bond repayment costs.

Nearly all Benefits from a Stadium Would Go to the Team Owners

The lease payments made by the team owners would cover a relatively small share of the stadium's annual costs. The $5.5 million lease amount represents about 14 percent of the total revenues included in the mayor's stadium financing legislation. The lease payment would cover an even smaller share if stadium costs exceed $440 million. While the team's costs would be low – and the financial risks faced by the team would be minimal – nearly all of the financial benefits of the new stadium would go to the team owners. The team would receive all revenues from the following sources, both when the team plays at RFK and in the proposed new stadium.

Economists Find that a DC Baseball Stadium Is Unlikely to Have Economic Benefits

Mayor Williams states that a baseball stadium will be an engine for economic growth, by creating jobs, generating more entertainment spending in the District, and spurring development of the Anacostia waterfront. Yet economic research consistently finds that stadiums provide few economic benefits. A group of economists recently signed an open letter to Mayor Williams which concluded that "it is dubious to justify the use of public funds to subsidize construction of a baseball stadium on economic development grounds." Other excerpts from the letter include:

- "A vast body of economic research on the impact of baseball stadiums suggests that the proposed $440 million baseball stadium in the District of Columbia will not generate notable economic or fiscal benefits for the city. Most studies find that new sports stadiums do not increase employment or incomes and sometimes have a modest negative effect on local economies."

- "Research also suggests that a baseball stadium alone will not revitalize the Anacostia Waterfront. Because sports stadiums are not used most of the year, they do not stimulate much development outside the stadium. Most modern stadiums include restaurant and other entertainment offerings, limiting the money that goes to neighboring businesses."

The complete letter can be found at http://www.dcfpi.org/10-21-04tax-stmt.pdf

- Ticket sales
- Concessions
- Souvenirs
- Parking
- Stadium naming rights
- Media rights

These represent all of the revenues that would be generated at the stadium on game days. In addition, the team owners would be able to use the stadium for other activities on days when it is not used for a baseball game.

- Under the proposed contract, the team would control use of the stadium 353 days per year, including game days.

- The team would have the right to sub-lease the stadium to other users. None of the revenues from sub-leasing would be shared with the District.

- The District would be able to use the stadium only 12 days per year — six during the baseball season and six in the off season. Yet even this use could be limited by the baseball team's owners. The team would have the authority to disallow a proposed use of the stadium by the District if the commercial sponsors of that event conflicted with the commercial sponsors of the baseball team.

Getting a Better Deal for the District

This review of the proposed stadium contract and financing legislation suggests that the effort to bring baseball to the District could be modified to lessen the financial burden and risks on the city. The following steps could be taken to meet these goals.

- **The District's contribution to the stadium could be reduced:** The DC Council, for example, could approve a bond of less than $500 million and require the new team owners to pay the remaining construction costs

- **Financial Risks of the Stadium could be shared:** The responsibility for cost overruns or future capital repair costs could be placed on the team owners entirely or shared with the District. Other provisions that limit the team's burden — such as the payment to the team for lost profits if stadium construction is not completed on time or provisions that limit increases in the team's lease payment — could be eliminated. The schedule for the team's lease payment could increase at least at the rate of inflation, or perhaps higher given that real estates values tend to grow faster than inflation.

- **Financial benefits of the stadium could be shared:** If the District subsidizes a sizable share of the stadium's development costs, the District could be entitled to a share of revenues from selected sources, such as naming rights or parking revenue.

Such changes should be possible without jeopardizing the team's profit opportunities. The District long has been considered a prime location for Major League Baseball because it is the largest and wealthiest metro area in the nation that does not have a team. Other sports stadiums have been built largely with private funds, including the MCI Center in Washington and baseball stadiums in St. Louis and San Francisco. The owners of these teams aggressively seek corporate sponsorships and other revenues to remain profitable while also paying stadium construction costs.