



TESTIMONY OF ED LAZERE, EXECUTIVE DIRECTOR  
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**At the Public Oversight Hearing on  
The Status of Baseball Operations and Financing  
District of Columbia on Economic Development  
District of Columbia Committee on Finance and Revenue  
November 28, 2005**

Chairman Ambrose, Chairman Evans, and other members of the Committees, thank you for the opportunity to speak today. My name is Ed Lazere, and I am the executive director of the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents.

I will comment on one specific topic related to financing a baseball stadium — the Ballpark Fee and recent proposals to lower it — and then I will make some comments on recently announced increases in stadium costs.

The stadium financing legislation adopted in December 2004 included a new \$14 million “Ballpark Fee” on mid-sized and large businesses. There has been discussion this year, however, about reducing the Ballpark Fee to \$8 million per year, predicated on the fact that the District has identified Deutsche Bank as a source of private financing for part of the stadium’s costs.

Yet as noted in a recent DCFPI analysis, the Deutsche Bank plan does not make the stadium project any less expensive for the District. The cost of the new plan is virtually the same as if the stadium were financed entirely with public bonds. Because the overall cost of stadium financing has not gone down, the proposal to scale back one financing source — the Ballpark Fee — will lead to a shift in *who* pays for the new stadium.

- Reducing the Ballpark Fee to \$8 million per year would save DC businesses \$60 million, when measured in today’s dollars, over the life of the stadium financing period.
- Reliance on other financing sources — the lease payment from the team, sales taxes generated at the stadium, and a utility tax on businesses and the federal government — would have to grow by \$60 million to offset the lower Ballpark Fee. This shift is significant because these funds could be used to support other basic services, such as health care or public safety, if they did not have to be devoted to a stadium.

With a \$14 million Ballpark Fee, the total stadium revenues collected will be more than needed to pay debt on \$535 million in bonds. The extra collections could be used to pay off the bonds faster — 19 years instead of 30 years. After 19 years, the other stadium financing could be devoted to the District’s general fund and used to support a variety of services.

If the Ballpark Fee is reduced to \$8 million per year, however, it will take 25 years to pay off the stadium instead of 19. This means that the other financing sources also will have to be devoted to stadium construction for 25 years instead of 19. The funds from these other financing sources that would have to be devoted to ballpark costs instead of going to the general fund between years 19 and 25 total \$60 million when measured in today's dollars.

It is worth noting that the stadium financing legislation adopted last year required DC's finance officials to seek private stadium financing, with the explicit goal of reducing the Ballpark Fee on businesses. It is not clear, however, that the intent of this provision was to reduce the Ballpark Fee if it simply meant shifting costs to other public sources. It is more reasonable to assume that the intent was to find a financing method that reduced overall stadium costs, thereby allowing for a reduction in the Ballpark Fee. The Deutsche Bank Plan does not do that.

I will now turn for a minute to increases in stadium costs. This spring, the DC CFO estimated that land acquisition and infrastructure costs would be \$161 million, or \$46 million higher than estimated when stadium legislation was passed. Since then, land acquisition costs have grown an additional \$21 million, although the infrastructure estimate fell by about \$28 million when it was determined that a major sewer line would not need to be moved. This means that infrastructure and land costs are now about \$40 million higher than last year. Just this month, the Sports and Entertainment Commission noted that stadium construction costs would be \$300 million, \$56 million higher than the \$244 million estimate a year ago. When added with land and infrastructures costs, this means the stadium already is nearly \$100 million over budget, even though DCSEC has made significant sacrifices to stadium design.

- Of course, these are still estimates. The factors behind the increases — higher land acquisition, material, and labor costs — all could increase further before a stadium is built.
- This raises the important question of who will pay for these new costs. While the District committed in last year's legislation to pay for cost-overruns, DC residents strongly opposed public financing and are unlikely to support using general funds to pay for a stadium. DC businesses already feel burdened by the Ballpark Fee and are unlikely to support an increase.
- Last year, a letter from stadium financing experts noted that DC's stadium deal was one of the most generous to Major League Baseball in recent history. In particular, the letter noted that it is uncommon for the host city to absorb the entire risk for cost overruns.
- Major League Baseball had a good year in Washington in 2005. The fact that MLB will soon sell the team for upwards of \$450 million is a further sign that a team is expected to continue to be highly profitable here. Given that, it is only reasonable to ask Major League Baseball to pay for stadium cost overruns and thereby ensuring that the Nationals will play in a top-notch stadium. This would still leave MLB with a very generous stadium deal.

Thanks again for this opportunity to speak. I am happy to answer any questions you may have.