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PROPOSED “PRIVATE FINANCING” OPTIONS FOR A DC BASEBALL STADIUM DO NOT REPRESENT TRUE PRIVATE FINANCING

By Ed Lazere

When the DC Council enacted the baseball stadium financing bill on December 14, it added a provision requiring at least 50 percent of stadium construction costs to be covered by private financing sources. (Under the law passed by the Council, the District would pay all costs for land acquisition and infrastructure improvements, which means the private contribution as a share of total stadium development costs will be less than half.) The law states that the stadium deal will die if private financing cannot be arranged.

Major League Baseball officials reacted adversely to this provision, at least in part because it leaves the future of a DC baseball stadium uncertain. MLB has indicated that it will reconsider the decision to place a team in Washington if a satisfactory stadium deal is not enacted by December 31, 2004.

In response, the Williams administration has scrambled in recent days to identify various possible sources of private financing. A December 18 *Washington Post* article noted that at least three proposals have been raised — selling parking rights around the stadium to a private company, selling landowners near the stadium the right to build taller buildings, and selling the right to create retail space on the ground level exterior of the stadium.¹ It appears that the Williams administration will use the list of potential private financing options to encourage the DC Council to eliminate the provision terminating the stadium plan if sufficient private financing is not established.

A review of these three proposals, however, suggests that they should not be considered viable private financing options at this time — and thus that the Council should not act to amend the stadium bill.

- Most important, all three options essentially would use a *public* asset to generate revenues from the private sector. Selling or leasing a public asset should not be considered a private contribution to stadium construction costs. Under the parking plan, for example, new parking meters would be installed in a new parking district around the stadium. A private company would then pay the District for the right to operate the meters in return for keeping a share of the revenues. The District would receive this "private" contribution only by forfeiting a public revenue source — parking revenue.

¹ “Parking Fees Nearby Could Alleviate Stadium Funding”, by David Nakamura and Neil Irwin, *Washington Post*, December 18, 2004, page B1.

Each of the identified proposals also has other problems that may not make them workable.

- **Parking:** It is likely that the District could raise more revenue over time if it operated the parking meters differently. Under the proposal being considered, a private company would make a large up-front payment to the city in return for a share of the parking revenue over an extended period of time. It is likely the District would pay a premium for receiving a substantial lump sum payment. The District probably could raise more parking revenue if it operated the meters itself. Alternatively, the District could hire a private company to operate the meters but not require a substantial upfront payment. The share of parking revenue offered to the company in this case would be lower than if the company were required to make an up-front payment to the city.
- **Increasing building height limits:** The height limitations for buildings in the District generally are governed by zoning regulations. Increasing the height limits would appear to require a change in zoning regulations, which can be done only by the Zoning Commission. The Mayor and DC Council cannot change zoning regulations.
- **Retail space in the exterior of the stadium:** Under the stadium agreement signed by Mayor Williams and Major League Baseball, the team would have the exclusive right to use of the stadium, beyond allowing the District to use the stadium for a specified number of days. This means that the team, and not the District, would have the authority to lease exterior space of the stadium. The District thus would need permission from MLB, and a change in the stadium agreement, to get this right. It seems unlikely that Major League Baseball would be unlikely to give up this potential income source.

This review suggests that the proposed options may not be viable sources of private financing for a stadium. They do not offer sufficient assurance at this time that private stadium financing can be arranged. For this reason, the provision mandating private financing that was added to the stadium financing plan should not be eliminated. If that provision is removed, and if viable private financing options are not identified, the stadium would be built — but entirely with public funds. Maintaining the provision that the stadium deal will not go into effect unless private financing can be found is still needed to ensure that stadium costs will be shared with the private sector.

This also would allow the city's finance officials more time to review possible private financing options. In this review, proposals that rely on the sales or lease of a public asset should not be considered private financing. Instead, financing options should be considered "private" only if they raise revenues that the District would not be able to generate otherwise.

It is worth noting that some of the proposals for private financing may be worth pursuing, even if they do not meet the criteria for private financing. For example, it appears that the District could raise a substantial amount of revenue from parking near the stadium. These revenues should be used to help the District meet the public share of the stadium costs, however, rather than serving as the private contribution.