



An Affiliate of the
Center on Budget and Policy Priorities
820 First Street NE, Suite 460
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-8173
www.dcfpi.org

February 6, 2006

NEW STADIUM PROPOSAL RAISES COSTS SUBSTANTIALLY AND FAILS TO PROTECT THE DISTRICT FULLY FROM COST OVERRUNS

By Ed Lazere

In December 2005, the DC Council refused to approve a proposed baseball stadium lease agreement, largely out of concern that the stadium budget had risen from \$535 million to \$667 million in recent months. Since then, officials from Major League Baseball and the District have worked to modify the lease to address these concerns. They released a new lease proposal and other documents over the past week.

A preliminary review of the documents shows that the new deal does not address the issues raised by the DC Council. It actually calls for further *increases* in stadium costs and will not fully protect the District from future cost overruns.

Higher Stadium Costs

- The new proposal includes an offer by the stadium contractors to guarantee construction costs of no more than \$388 million. This figure is \$11 million higher than the \$377 million construction cost estimate included in the previous \$667 million total stadium budget. (Other stadium costs include items such as land acquisition, RFK renovations, and financing fees.)
- The new proposal includes \$55 million for construction of underground parking. This appears to replace plans to build surface parking for \$16.5 million. The new figure is \$38.5 million higher than the previous parking cost estimate.
- Together, these add at least \$50 million to the stadium budget, bringing it to \$717 million.

The new deal also contains a new funding source — \$55 million from the sale to private developers of the right to develop on the stadium site outside the ballpark.¹ Yet all or nearly all of

¹The original baseball stadium agreement in 2004 and the proposed lease in 2005 assumed that the District would have the right to some development outside the stadium, but the amount the District would earn from these rights had not been clear. Under the new proposal, Major League Baseball would receive \$15 million from sale of development rights.

these revenues would be needed just to address the higher costs. If stadium costs had not risen, the \$55 million could be used to *reduce* the amount the District has to borrow to build the stadium.

Failure to Provide Full Protection from Cost Overruns

As noted, the new proposal includes a negotiated maximum price for construction costs. In return for promising to stay within the \$388 million construction budget, the contractors will assume greater control over day-to-day construction decisions. This provides some assurance that construction costs will not rise, although it still is possible that construction costs could rise. If the District determines that steps needed to stay within the \$388 million cap would require extensive sacrifices to the stadium design, additions to the budget could be approved.

Moreover, the new plan does not provide any protection from cost overruns in other parts of the stadium budget, including land acquisition, environmental remediation, relocation of existing businesses, and infrastructure improvements. Under the new proposal, the Anacostia Waterfront Corporation would assume responsibility if these costs rise further. Since the AWC is a public entity established by the District government, this still places the burden for cost overruns on the District of Columbia. Funds the AWC uses to address stadium costs will detract from other investments in the Anacostia waterfront.

It is important to note that the stadium budget includes a \$43 million contingency fund that could be used to cover cost overruns in this area, as well as additions to the construction budget that may be contemplated. If cost overruns exceed \$43 million, the District would be liable for the added costs.

The failure to fully protect the District from cost overruns is significant because at least one potential ownership group has pledged to pay for all cost overruns if it becomes the team's owner. Major League Baseball, however, has instructed all potential ownership groups to refrain from making such offers. This appears to reflect that groups that offer to pay for cost overruns may offer less to buy the team, reducing the profit MLB would earn from sale of the Nationals.