



*An Affiliate of the
Center on Budget and Policy Priorities*
820 First Street NE, Suite 510
Washington, DC 20002
(202) 408-1080 Fax (202) 325-8839
www.dcfpi.org

**TESTIMONY OF ED LAZERE, EXECUTIVE DIRECTOR
At the Public Hearing on
B 20-805, The District of Columbia Soccer Stadium Development Act of 2014
District of Columbia Committee of the Whole
District of Columbia Committee on Finance and Revenue
District of Columbia Committee on Government Operations
June 26, 2014**

Chairman Mendelson, Chairman Evans, Chairman McDuffie and members of the Council, thank you for the opportunity to testify 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 how policies impact low- and-moderate income families.

I am pleased to testify here about legislation to develop a new soccer stadium for DC United. The DC Fiscal Policy Institute is part of a coalition, the Winning Goal Coalition, which believes that professional soccer is an important part of the quality of life in our region, and that DC United needs a new home. The DC Fiscal Policy Institute also understands that virtually all professional sports stadiums are built with some level of public financial support, and so we accept that the DC United stadium will need some public support.

The question then becomes whether the legislation and associated documents represent a good deal for the District and the best way to bring a new soccer stadium to the District. It is important to remember that while a new stadium will be a great cultural benefit, the most direct financial benefits will go to the owners of DC United. A new stadium will allow the team to sell more tickets, get naming rights, control concessions, and develop entertainment venues on land adjacent to the stadium. The value of the team to the owners will jump dramatically the minute the team has a new stadium. Given the team's financial stake, DCFPI believes the team should bear a greater share of the costs and risks than the District.

It also is important to remember that the legislation offers only one financing mechanism that will cover only a small part of the District's costs, which means almost every dollar going into the stadium from the District is a dollar that could be going to build a library or school or recreation center.

Finally, the DC Council has commissioned a study to look at a cost-benefit analysis of the real estate transactions and to provide expert advice on the terms of the proposed transactions. The Council should wait for the completion of this work before making any decisions on this legislation.

I believe that this deal should be examined and improved in three keys ways:

- **Support for the immediate community:** One set of questions revolves around making sure the stadium development is helpful and not harmful to the surrounding community and to the people who will work to build it and operate it each game day.
- **Redevelopment of the Reeves Center:** The proposal to redevelop the Reeves Center is, in my opinion, as important as development of a soccer stadium. Yet the Reeves Center is being treated in this legislation like a Monopoly property, to be traded for cash. The District would transfer the Reeves Center to Akridge and allow the company to re-develop the site any way it wants. Yet the re-development of public property usually involves planning and community input that leads to some guidelines for the property's future use. In addition, the legislation would trade the Reeves Center to Akridge at a price below the value from at least one of the appraisals, which suggests that putting it up for sale could generate a better return to the city. Finally, the plan calls for creating a new Reeves Center east of the Anacostia River, yet it offers no details and no financing. With the city very close to its debt cap, it is not clear how or when a new municipal center will be completed.
- **Subsidy details:** The legislation and agreements set a cap on the District's investment at \$150 million. While it is good that the city's costs would be capped, but we believe this is too high. District officials now believe the costs to buy and prepare the land will be close to \$120 million, which suggests the cap should be set there, with DC United accepting any cost-overrun risks. In addition, the legislation provides substantial property and sales tax breaks to the team owner, especially in the early years. District officials explain this is needed because the team is likely to lose money for the first few years. Yet given the fact that the team stands to benefit financially in multiple ways from a new stadium, the District does not need to provide tax breaks to further help DC United's bottom line. DCPFI believes that DC United should pay all sales and property taxes from Day One. In a week when the Council affirmed the value of broad tax bases, offering special tax exemptions to DC United does not make sense.

These issues are discussed in more detail below.

Support for the Immediate Community

The soccer stadium and related development would bring major changes to Buzzard Point. These have the potential to be very positive for the District and the nearby community, but there are also many risks. Some of the sites present possible environmental hazards. Transportation options to Buzzard Point are limited, and there is a substantial amount of subsidized housing nearby. Residents are likely to fear that redevelopment may push them out.

DCPFI and the Winning Goal Coalition believe the following steps are needed to ensure that community concerns are met.

- **Transportation plan:** Before any legislation to build a stadium is approved, the District should develop a game day transportation plan that addresses the neighborhood's concerns and needs.
- **Environment:** The District should be transparent about all environmental issues identified on the stadium site, as well as about plans to address them. The legislation should not be adopted before environmental issues are identified and plans to address them are made.

- **Housing:** The District should work with all relevant stakeholders, including the DC Housing Authority, to develop commitments to preserve all subsidized housing that is adjacent to the stadium site.
- **Community Benefits Agreement:** DC United and the District should work with a designated community representative to develop a binding commitment to provide negotiated community benefits. The baseball stadium legislation created a “community benefits fund” that did not end up providing benefits. We should not repeat that.
- **Good Jobs:** There already is a project-labor agreement to ensure that DC residents are trained for and get a substantial share of the construction jobs. The Winning Goal Coalition and DCFPI are hopeful that the permanent jobs to run the stadium on game day also provide living wage opportunities to DC residents.

Redevelopment of the Reeves Center

The legislation envisions that the District will generate revenue for the costs of acquiring and preparing stadium land by disposing of one or more public properties, including the Reeves Center. The land disposition would come through land swaps, or trades, with Akridge and Pepco, two owners of land at the Buzzard Point stadium. The District plans to dispose of land rather than through bonds because the District is close to its borrowing limit through the debt cap.

This plan raises several concerns:

- **The Reeves Center Redevelopment should be taken more seriously.** The Reeves Center is an important public facility in a central location with strong public transit access. District officials suggest that the Reeves Center is ready for private development because that neighborhood no longer needs a public building to anchor its economy. While that is reasonable, the District should consider the site’s redevelopment carefully, including what will be done to ensure access to the services currently provided there and how the site’s redevelopment will best meet the needs of the city and the site’s neighbors. Control of this site gives the District the opportunity to shape the continued development of the U Street area.

Yet the legislation would allow Akridge to redevelop the property any way it wants. This was done to generate the highest possible sales price with Akridge. In other words, the needs of the U Street area and its residents would be sacrificed solely to raise money to buy soccer stadium land. The DC Fiscal Policy Institute does not believe that this is appropriate. We believe the redevelopment of the Reeves Center should be taken just as seriously as the soccer stadium development.

- **Concerns about land swaps.** The Reeves Center would be sold to Akridge for \$56 million, without seeking other bids, yet the DC Chief Financial Officer appraised the site at nearly \$70 million. In the District’s current real estate market, it is not unusual for properties to sell above their appraised value. The only way to ensure that the District gets the best deal for the Reeves Center is to put it up for sale to the highest bidder, once rules for how it will be redeveloped have been set.

- **Plans for a new “Reeves Center” also need to be taken more seriously.** The District is ready to sell the Reeves Center as fast as possible, yet there appear to be few plans for developing a new municipal center in Ward 8, as was announced by Mayor Gray. In particular, the District faces serious constraints on its capital budget, because the city is very close to its debt cap. Without the ability to borrow funds to build a replacement for the Reeves Center, it is not clear whether this plan is realistic. The Council should not approve stadium legislation until plans for replacing the Reeves Center are clear.
- **Concerns about siting a new Pepco Substation on a New Community Site:** The District is seeking a space for Pepco to build a substation to replace the substation in Buzzard Point. The current location being considered is at First and K Streets, NW. Yet this is part of the NW1 New Community site that is intended to provide mixed income housing and other public amenities. It is not clear whether the substation would force changes to the New Communities plan, but that should be clarified before the deal is approved.

Subsidy Details

The proposed legislation and related documents would have the District take responsibility for acquiring and preparing stadium land. Early estimates pegged the costs at around \$150 million. The documents associated with the deal would cap the city’s costs at \$150 million, with DC United paying for any over-runs. The legislation, however, only refers to a \$90 million cap on the costs of acquiring land.

DCFPI believes the legislation to be modified to reflect a cap on all of the city’s costs, and that the cap should be set at the current estimated amount of \$150 million.

In addition to this subsidy, the stadium legislation would create further subsidies through property tax and sales tax exemptions and abatements. These would amount to roughly \$40 million over the life of the stadium. The combination of land subsidies and tax breaks would set the District’s share of stadium costs at over half.

The main argument offered in support of these tax breaks – that DC United stands to lose money in the stadium’s first years – is not compelling. As noted, the new stadium will create substantial and long-lasting financial benefits for the team. Moreover, as a business, it is reasonable to expect the team to accept the risks of short-term losses if it anticipates long-term gains. It does not make sense that DC taxpayers should bear responsibility for propping up DC United’s bottom line.

Finally, it is worth noting that the stadium legislation includes only one element to offset the city’s costs, a \$2 per ticket charge that will start in year 11 and will generate about \$10 million by year 20. In contrast, the legislation to finance Nationals Park included provisions to cover the city’s subsidy entirely. Without financing mechanisms for the soccer stadium, it is even clearer that the funds the District will devote to the soccer stadium will take away resources that could be used for other purposes, such as building a new municipal center in Ward 8.

Thank you for the opportunity to testify. I am happy to answer any questions that you have.