

ROUTLEDGE RESEARCH IN SPORT BUSINESS AND
MANAGEMENT

Public/Private Partnerships for Major League Sports Facilities

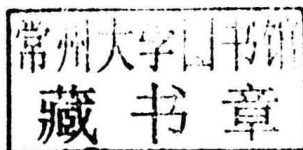
Judith Grant Long

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2 Public/Private Partnerships for Major League Sports Facilities

Judith Grant Long

For Chris, MVP of the Boston Longs

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Preface

This book brings together two hot topics in contemporary urban development policy: public-private partnerships and subsidies for major league sports facilities. My primary aim is to inform the ongoing national and local debates over public investments in sports facilities, and by extension, to contribute to the discourse surrounding public spending on sports and tourism infrastructure as a priority in contemporary urban agendas. My central questions are concerned with the nature and interpretation of public-private partnerships—who pays, how much, and why—as revealed in over 100 recent deals struck to build new major league ballparks, stadiums, and arenas, in over 50 host cities located throughout the US and Canada.

Public-private partnerships have long been used by federal and state governments to deliver infrastructure and other construction projects, but until the 1960s had rarely been deployed by local governments. By the 1970s, declining federal aid for urban areas meant that local governments—who were often land rich but cash poor—viewed public-private partnerships as a way to attract private capital to public projects. Notable early work charting the rise of public-private partnerships for urban development during this period includes Bernard Frieden and Lynn Sagalyn's *Downtown, Inc.*; Susan Fainstein's *The city builders*; Dennis Judd and Susan Fainstein's *The tourist city*; Jerold Kayden's *Privately-owned public space*; Lynn Sagalyn's *Times Square roulette*; and Alan Althsuler and David Luberoff's *Mega-projects*; among others. Following their lead, the guiding principle of my research is to better understand, and to keep watch over, the public interest in partnership deals.

Major league sports facilities soon emerged as a common—and highly visible—development category implemented by public-private partnerships in urban areas, alongside convention centers, festival markets and other entertainment retail, as well as waterfront revitalization projects. Sports facilities provide a rich case for analysis since there are a large number of recent deals to study—more than 100 new major league ballparks, stadiums, and arenas were opened between 1990 and 2010—and because the facilities themselves are well-suited to comparative study by virtue of similar building footprints and operating profiles across sports. Seminal works

examining public investment in major league sports facilities, emerging contemporaneously with the broader work on public-private partnerships in the 1990s, include a set of highly influential articles by Bob Baade, in some cases working with colleague Robert Dye and other collaborators; Roger Noll and Andy Zimbalist's *Sports, jobs and taxes*; James Quirk and Rod Fort's *Pay dirt*; Mark Rosentraub's *Major league losers*; Neil deMause and Joanna Kagan's *Field of schemes*; and Michael Danielson's *Home team*; among others.

As a contribution to the research on this topic, my analysis of public-private partnerships for major league sports facilities casts the net wide. I examine the full set of major league sports facilities, and the deals struck to pay for them, highlighting elements of single cases, but not reporting on them in detail. I chose this approach specifically because I was interested in revealing and interpreting broader trends as a means to informing the partnership debate. That there are real pragmatic benefits—as in the production of a good-quality, up-to-date and comprehensive data set—is a valuable, although secondary, contribution. It also bears mention, and emphasis, that my cost estimates are likely to differ from those produced in other accounts. Some of these differences arise from simple adjustments, such as conversions to account for inflation that allow for comparisons of all deals at 2010, but these are not particularly controversial. More debatable are the assumptions I choose to estimate specific public costs—such as the treatment of land costs (e.g. market value versus amount paid), infrastructure costs (e.g. attribution), operating income and expenses (e.g. sales projections), and foregone property taxes (e.g. valuation and rates).

Throughout the analysis I provide two categories of public cost estimates—1) public capital costs, and 2) public capital costs *plus* ongoing costs—allowing readers to choose between a more simple estimate of construction costs, versus a set of estimates based on projections of public costs over both the construction and operating phases. While I provide the rationale and techniques for my cost estimates in Chapter 3, other researchers will of course use different assumptions. The design of my financial analysis has been the subject of much discussion with esteemed colleagues in the sports economics field, and the model presented here reflects that ongoing dialogue. Pragmatically, it is useful that all cases have been treated using the same cost estimation technique, since this kind of comparative analysis is not available elsewhere. Nonetheless, it remains that my estimates of public cost may be different than those produced by others analyzing the public side of the deal. They will almost certainly be different from those where the primary goal is to evaluate private spending.

I collected the cost data—that is, before making adjustments that estimate costs over the operating period—by cross-referencing academic books and journal articles, with the actual partnership documents where available, as well as trade books, industry research, team publications, and by

sifting through hundreds of newspaper articles. I started with the cost data published by academic colleagues, notably Andy Zimbalist, Roger Noll, Dennis Coates, Rod Fort, James Quirk, Brad Humphreys, Neil de Mause, Mark Rosentraub, and Dennis Zimmerman, in the works noted above, and others listed in the reference section of this volume. I also reviewed the many excellent case studies of single facilities or sets of facilities in a specific location. Good examples are Charlie Euchner's *Playing the field* which includes three case studies on Baltimore, Chicago, and Los Angeles, and Amy Klobuchar's (now Senator Amy Klobuchar, DEM,MN) *Uncovering the dome*, a in-depth analysis of the building of the Hubert Humphrey Metrodome in Minneapolis, Minnesota. Michael Danielson's *Home team* includes an unparalleled literature review in its appendices, and is the volume I most often refer graduate students looking for an introduction to the politics of major league sports in host cities. Kevin Forsythe's *Stadium game Pittsburgh style* was essential in helping me organize the operating revenue and expense categories, as was Martin Greenberg's *The stadium game*. I am also grateful to the state and local governments, and sports/tourism authorities, that have made genuine efforts to communicate with the public about sports facility deals, by responding to phone inquiries and by operating effective websites with links to legal documents, such as the Harris County-Houston Sports Authority website (www.houstonsports.org/legal_info). Finally, this analysis would not have been possible without the efforts of the scores of journalists who have reported on the sports facility funding debates in their cities. On this front, Neil deMause does yeoman's service (www.fieldofschemes.com): corraling breaking news and providing pithy commentary on the sports facility funding debate as it continues to unfold around the country.

For those interested in the finer details of my cost estimates, or who may wish to access data for older facilities, I refer you to my academic research website, www.judithgrantlong.com. Readers will find here links to my research on this and related subjects, links to the work of other scholars in the field, as well as variations on the data sets presented in the book. For those following the paths of specific facilities that have changed names multiple times, the website also includes some tags on evolutions of names that make it easier to find data. (Facility names in this volume are accurate as of late 2011.) The website also includes a specific section for journalists and taxpayers looking for basic information on sports facility deals and public-private partnerships.

Several colleagues made valuable contributions to this research project. Jerold Kayden of Harvard University, a preeminent scholar of planning law and public-private partnerships, has guided my intellectual development for nearly two decades, first as a mentor and now as a valued colleague and great friend. Alan Altshuler, a world-renowned political scientist who has served as both the Dean of the Harvard Graduate School of Design and the Director of the Taubman Center for State and Local Government at

the Harvard Kennedy School, provided the essential frame for this project in its earliest stages, and has been a pillar of strength and goodwill since my days in graduate school. Andy Zimbalist of Smith College, a founding father of the contemporary study of sports economics—who is among its most prominent and prolific members—was present at the creation of this project, and continues to provide irreplaceable and sage counsel, while graciously pointing me to new opportunities in a field where women scholars remain scarce.

Harvard students representing a variety of disciplines also contributed to this research project, through coursework and as research assistants. First up: Howard Kozloff started his study of ballpark development while an undergraduate at Penn, and continued it at the GSD with me in the late 1990s—we continue to talk about sports and cities today. Neil Freeman did some excellent spatial analysis for the Boston-based facilities, that in part serves this volume as well as a forthcoming case study examining why Boston taxpayers paid comparatively little for their set of major league sports facilities. David Tannenwald wrote a terrific undergraduate thesis about the role of referenda in sports facility funding, and was instrumental in updating the data set in the mid-2000s. Tobias Oriwol, a fellow Torontonian who represented Canada at the 2008 Olympics in Beijing and will do so again at London 2012, helped to develop a set of comparative data and maps to inform the urban development outcomes analysis, as well as contributing to the Montreal case study for my ongoing research project on the Olympic Games. Students working with me on sports more broadly include Kerrie Butts, Nick Hornig, Alexander Karadjian, Henry Luu, Irina Mladenova, Tiffany Otis, Tati Peralta-Quiros, Fallon Samuels, Jihoon Song, and Christine Wu, among others. Lauren Kim and Wes Thomas worked with me to design my research website.

Colleagues at the Graduate School of Design at Harvard University, past and present, have served as a source of support and friendship during the production of this work. Thanks go to Stephanie Abundo, Eric Belsky, Joan Busquets, Marco Cenʒatti, Felipe Correa, Paul Cote, Margaret Crawford, Bill Doebele, Gareth Doherty, David Gamble, Jose Gomez-Ibanez, Toni Griffin, Anna Hersperger, Mike Hooper, Alex Krieger, Kathryn Madden, Rahul Mehrotra, Martha O'Mara, Rick Peiser, Nic Retsinas, Joyce Rosenthal, Peter Rowe, Brent Ryan, Hashim Sarkis, Kathy Spiegelman, Richard Sommer, Jim Stockard, Sameh Wahba, and Martin Zogran, as well as Ellen Colleran, Caroline Newton, and Nicole Sander in the department office. I count myself fortunate indeed to have enjoyed the company of Susan Fainstein over the past five years at Harvard; not least because it was her book, *The city builders* that I found on a rainy day in a bookstore in Oxford that ultimately placed me on the path into academe, but also because she is a marvelous colleague and enduring role model. So too, David Luberoff, the Executive Director of the Rappaport Institute for Greater Boston at Harvard Kennedy School, who has been invaluable

in connecting my work to that of other scholars and policy analysts, both within and outside Harvard. The Reverend Doctor Doug Hicks, a star of our PhD cohort and now Provost of Colgate University, spent more than a few nights during grad school teaching me about US college sports. Thanks also to my planning colleagues in Canada who continue to offer support from afar, including David Amborski, Ron Keeble, Nina-Marie Lister, and Jim Mars from Ryerson University; as well as David Gordon of Queen's University who first inspired me to consider Harvard, and then helped to make it possible by opening many doors.

On the home front, thanks above all to my generous and supportive husband, Chris Long, who keeps our active family running smoothly when I'm on a writing deadline or on the road. Our wonderful kids make it all worthwhile: our youngest gleefully wears her Toronto Maple Leafs jersey to hockey practice and to school on team spirit day, despite the fact that we live deep in Bruins territory. Thanks also to my parents, Enid and Terry Grant—who started their romance over a borrowed can of tennis balls in London, England, and are celebrating their 60th wedding anniversary this year—for providing ongoing support, as do my brothers and sisters, and the rest of our super-size extended family, counting Tine Major as one of our own.

I am very grateful for support of this project in the form of grants and fellowships from the US Department of Housing and Urban Development, the Taubman Center for State and Local Government at the Harvard Kennedy School, the Canada Mortgage and Housing Corporation, and the Radcliffe Institute for Advanced Studies at Harvard University.

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1 Introduction

Cities, Sports Facilities, and Public/Private Partnerships

In 2010, the government of Hamilton County, Ohio, found itself unable to make the \$27 million annual payment owing on two new major league sports facilities recently built in Cincinnati: Great American Ballpark and Paul Brown Stadium. The bonds issued to finance the two stadiums—with a face value of approximately \$540 million when issued between 2000 and 2003 as part of an ambitious waterfront development project known as “The Banks”—were to be repaid through a half-cent sales tax increase whose revenues were dedicated to the sports facility bonds.¹ However, sales tax revenues were lower than forecasted due to the nationwide recession, meaning that the county would have to find another way to come up with the money. To default on the payment would risk having the county’s bond rating down-graded, which in turn would lead to increased borrowing costs for future capital improvement projects. In the end, county officials decided to make up the shortfall by making cuts in other programs, as well as school budgets, and a reneging on a promised property tax rollback. The long-term viability of the sales tax fund used to support these payments remains in question, with voters unwilling to support further sales tax increases.

Hamilton County is by no means the only public partner in a sports facility partnership that has recently found itself short of the funds necessary to pay its ongoing obligations. Similar sports facility debt crises have emerged in other parts of the country. The sports authority of Harris County-Houston relies on revenues from hotel/motel and rental car taxes to service the debt on its MLB Minute Maid Park, NFL Reliant Stadium, and NBA Toyota Center Arena, but saw those revenues dip by an estimated 12 percent during 2009, impacting their ability to make payments, and resulting in a lowering of their bond rating in 2010.² The City of Orlando faced a fiscal crisis in 2010 when the rating on the bonds for its new Amway Center Arena—backed by an increase in the tourism development tax—were downgraded to junk, with a default warning for 2012; this only two years after the bonds were issued.³ The City of Glendale, having pursued an aggressive development strategy based on hosting major league sports, is on the hook for hundreds of millions in construction costs as well as massive

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bailouts to support its failing NHL franchise. For Harris and Hamilton counties, and for the cities of Orlando and Phoenix, these revelations come on the heels of reports that theirs are some of the most generous deals made with major league teams in recent history.

Some public partners have fared better with ongoing cost commitments, especially in cases where the robustness of revenue streams intended to repay upfront public contributions was not affected by the recent economic downturn. Taxpayers in the seven counties that encompass metropolitan Denver voted in favor of paying for MLB Coors Field and NFL Sports Authority Field by levying an additional sales tax of one-tenth of 1 percent, or \$0.10 on every \$100 purchase. It was expected that the duration of the bonds would be 20 years. Initiated in 1991, the actual sales tax revenues exceeded initial projections, and consequently the bonds for Coors Field were on track to be fully repaid by 2001, a full ten years earlier than expected. Rather than paying off the bonds, taxpayers voted again in 1998 to extend the tax to pay for a new NFL stadium. These bonds are due to be repaid by the end of 2011, and at that time, the additional sales tax is slated to be retired. In a similar case, residents of the City of Arlington approved a sales tax increase to pay the debt service on bonds issued to build Rangers Ballpark in Arlington in 1991, retiring the bonds ten years later.

Other factors influence the ongoing costs paid by public partners. The use of auction-rate securities, for example, was billed as a cheap alternative to fixed-rate bonds, but has backfired on several state and local governments. In early 2008, taxpayers in Louisiana were paying interest rates three times higher than usual as a result of using auction-rate securities, increasing monthly debt payments on the NFL Louisiana SuperDome⁴ from \$500,000 to an estimated \$1.8 million. Similar spikes were reported in Cleveland, Washington, DC, and Indiana. In a strange twist on the tale of ongoing public costs, some governments find themselves continuing to make payments on sports facilities that no longer exist: taxpayers in New Jersey are still paying down the debt on Giants Stadium and King County is still paying for the Kingdome (including \$40 million in demolition costs). The same situation has arisen in Philadelphia, Kansas City, Memphis, and other cities.⁵ At the time of this writing, the Securities Exchange Commission (SEC) has opened an investigation into the financing deal supporting the delivery of a new ballpark for the MLB Miami Marlins, on allegations that the team misrepresented information about its finances, particularly its ability to contribute to the ballpark, which is expected to be 80 percent publicly funded.⁶

That some public partners are struggling to pay ongoing sports facility bills points to a new phenomenon in the history of public funding for major league sports facilities. These are not static deals that only report costs incurred over the construction period; rather they are dynamic, living deals that should be assessed over their full duration. For private