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[Scoreboard: What If Congress Nixed Federal Stadium Subsidy?]

What would happen if Congress eliminated a popular federal tax break used to build sports stadiums?

A bipartisan group of House and Senate lawmakers want Congress to take a second look at recently reintroduced legislation that would eliminate the tax exemption for municipal bonds used to finance construction of professional sports stadiums. The issue has been a hot topic of late, with Nevada embarking on a $1.9 billion stadium in Las Vegas for the National Football League's Raiders—funded in part with the largest public subsidy for a stadium in the league's history.

The bills—introduced in the House (H.R. 811) by Rep. Steve Russell (R-Okla.) and the Senate (S. 1342) by Sens. Cory Booker (D-N.J.) and James Lankford (R-Okla.)—would eliminate the subsidy by creating a special rule under tax code Section 141(b).

"If a community wants to vote and tax themselves to improve their city or to do something to bring a sports team in, that is up to those local citizens," Russell told Bloomberg BNA. "But you shouldn't have people in Nevada asking for Oklahoma or New York tax dollars to fund their stadium," he said.

A September 2016 report from the Brookings Institution found that 36 NFL, National Basketball Association, National Hockey League, and Major League Baseball stadiums that were newly built, extensively renovated, or under construction from 2000 through September 2016 were—at least in part—funded with tax-exempt municipal bonds, costing the federal government $3.2 billion when calculated using a 3 percent discount rate.

Russell, who has met with House Ways and Means Committee Chairman Kevin Brady (R-Texas) about the bill, said the measure is designed to be included in the tax reform package currently being crafted by Republican lawmakers and the White House. Booker told Bloomberg BNA he would rather see the measure enacted on its own.

The NFL is monitoring the legislation, said Jocelyn Moore, the league's senior vice president of public policy and government affairs. But a similar bill introduced by Russell last session (H.R. 4838) failed to gain traction, she noted. As far as the new legislation is concerned, "I don't think that either bill has garnered a significant amount of bipartisan cosponsors," Moore told Bloomberg BNA.

The bill's passage may be a long shot, but just how valuable are tax-exempt municipal bonds to the state and local governments and teams that rely on them to build new stadiums?

Costs Shifted to States

The average cost of debt service on the state and local level would increase 25 percent if stadiums lost the ability to use the bonds, said Dennis Zimmerman, director of projects at the American Tax Policy Institute and a former Congressional Research Service analyst who wrote a series of frequently cited reports on tax-exempt stadium financing in the 1990s. "That's generally the value of the tax subsidy."

The amount local taxpayers currently pay for the stadiums is equal to the total principal of tax-exempt bonds issued, which was $13 billion for the 36 stadiums surveyed in the Brookings report, said co-author Austin J. Drukker, a project coordinator and research assistant at the think tank.

"Assuming localities would switch from tax-exempt bonds to taxable bonds with the same principal value and other characteristics, the additional cost to local taxpayers would be equal to the federal subsidy"—$3.2 billion total—Drukker said in an email. Dividing $3.2 billion by $13 billion roughly equals a 24.6 percent increase in debt service, very close to Zimmerman's estimate.

"However, if localities used other financing options that were cheaper than taxable bonds (which have to pay interest to investors at the expense of the local taxpayers), the expense to the local taxpayer might be lower," he said.

Worth the Investment?

The NFL's Moore said stadiums shouldn't be treated differently than opera houses, cultural centers, or education facilities that states and localities vote to build.

Federal investment in infrastructure is designed to bring in private dollars for local projects that will lead to economic development, "which our stadiums certainly do," Moore said.

Brett Bolton, principal associate for finance and intergovernmental relations at the advocacy group National League of Cities, echoed Moore's comments about flexibility in an emailed statement. "If a referendum passes or a council votes to build a large public project, we believe the city should be able to use every tool in the tool chest to finance and advance the project," he said. "That would include tax-exempt municipal bonds."

But the Brookings study, citing several research papers, said: "Academic studies consistently find no discernible positive relationship between sports facility construction and local economic development, income growth, or job creation." Among other explanations, the report said the money people spend attending a game at a newly constructed stadium is largely offset by reduced spending at other local venues.

The NFL provided Bloomberg BNA with reports from the late 2000s that projected stadiums recently built in California, Minnesota, and Georgia—for the 49ers, the Vikings and the Falcons, respectively—would generate hundreds of millions in economic output. The league referred Bloomberg BNA to the individual cities to obtain the actual economic figures now that the first two stadiums are in service and the last one is nearing completion.

The mayor's office in Santa Clara County, Calif., didn't return requests for comment; the mayor's office in Minneapolis referred Bloomberg BNA to the Minnesota Sports Facilities Authority, which didn't respond; and the mayor's office in Atlanta said the city uses the Bureau of Economic Analysis for information on economic growth but hadn't verified the projected numbers.

In general, the tax exemption "has been a cost-effective way for state and local governments to finance infrastructure, and if the tax exemption broadly for municipal bonds were to be eliminated, it would likely result in less infrastructure investment," said Robin Prunty, a managing director in the Public Finance Ratings Group at S&P Global Ratings. "I think that would follow through for stadiums."

Demand Exceeds Supply

If legislation eliminating the tax exemption becomes law, "[w]ill it have an effect on the amount of sports economic activity?" Zimmerman asked. "I think we can say with great assurance, it will not."

The federal subsidy isn't the main driver for states and localities looking to finance professional sports stadiums, said Ted Gayer, vice president and director of Brookings' economic studies program and a co-author of the 2016 report. Other factors play a role, including a local community's desire to have a team and local politicians who want to bring in a team as part of their legacy, he said. And "most importantly, if you want a football team, you can't create a football team, you have to go to the NFL," he said.

The demand for franchises far exceeds the supply, Zimmerman said. "It's that excess demand that gives them the leverage to extract subsidies from the local and state governments."

Moore, at the NFL, disagreed with the assessment that the league would be unharmed by the stadium bills. "I think it's a concern for all sports leagues that build stadiums," she said, adding that the public financing is used not only for stadium construction, but also for security and technology upgrades.

The NHL, NBA, and MLB didn't return requests for comment.

Controversial Corner

The tax-exempt bond market probably would fare well if the stadium bills were enacted, according to Matt Fabian, a partner at Municipal Market Analytics Inc.

Tax-exempt stadium financing is a controversial corner of the municipal market. "It accounts for less than 1 percent of the bond market and yet it probably draws 25 percent of the criticism," Fabian said. Eliminating that small, problematic corner would legitimize the remainder of the market and reduce the risk of other areas losing their tax exemption, he said.

Any negative effects of killing the stadium-bond exemption would likely be felt by public finance bankers, he said.

Cutting stadium financing out of the tax-exempt space would mean that those bankers could no longer charge fees for their underwriting services on stadium bond issues. And while there aren't a lot of these bond issues in the market, they are generally lucrative for banks to bring in, Fabian said.

Stadium bond issues are complex and tend to be controversial, so an investment bank can generally get a larger spread for selling those bonds than general obligation bonds, he said. "These are harder transactions to structure and complete, which is a welcome change from the low-spread world of GO bond issuance."

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