
Will Obama Tax Plan Sack Chargers stadium?

A new Chargers stadium could cost more if a proposal buried in President Barack Obama's new budget becomes law.

That's because professional sports facilities would no longer be able finance projects with lower-cost, tax-exempt municipal bonds starting Jan. 1. The fiscal 2016 budget projects that the Treasury could reap a $542 million windfall from the proposal over the next 10 years.

For decades cities have issued tax-free bonds for sports facilities. The new proposal would tighten tax law and effectively bar use of these bonds to finance arenas, stadiums and other professional sports venues.

"The current structuring of government bonds to finance sports facilities has shifted more of the costs and risks from private owners to local residents and taxpayers in general," the U.S. Treasury said in an analysis of the new budget.

Obama's proposal seems to have found favor with economists who have long believed that stadiums do little to benefit cities financially and therefore are not worth the large public subsidies that have historically been invested in such projects.

"This is a pretty modest proposal, but it could have big implications for sports stadiums in the sense that it would make it a lot harder for cities to justify the kinds of subsidies they provide to sports teams," said Samuel Staley, an economics and urban planning professor at Florida State University. "This is one of those areas where there's consensus among economics professors that these are not good projects for the use of public dollars."

By removing access to less costly financing, Obama could potentially force team owners to shoulder more of the risk for their stadium projects, Staley speculated.

The Chargers said Wednesday that it was studying the tax proposal and did not want to comment.

San Diego County Treasurer-Tax Collector Dan McAllister, who may figure into stadium financing if the county joins the city in building a new stadium, said the local impact would mean higher financing costs for the project, projected at $1 billion.

"It's a variable that didn't exist a week ago," McAllister said.

Mayor Kevin Faulconer's newly appointed stadium task force is looking at financing options, as well as where to locate the stadium, and municipal bonds represent one of several possible ingredients in the mix. Others include Chargers and NFL contributions, naming rights, city land and higher taxes requiring voter approval.

Jim Steeg, former NFL executive and a member of the task force, declined to comment on the Obama proposal until the group starts meeting.

Tax-exempt bonds have long been the go-to tool to finance sports facilities, including Qualcomm in the 1960s, its expansion in the 1990s and the construction of Petco Park in the 2000s. More recently, tax-exempt debt was used to build the new Yankee Stadium and the Dallas Cowboys' $1.3 billion stadium.

"Obama's proposal clearly makes the cost more expensive, which arguably makes (the stadium) more difficult to get done," said San Diego State accounting professor Steven Gill. "But is it a killer? I don't think so, not in this low interest rate environment."

Taxable municipal bonds would still be a financing option for a stadium, but the interest rate needed to attract investors would have to be higher — roughly 3.3 percent compared with 2.4 percent in today's bond market, said Lynn Reaser, chief economist at Point Loma Nazarene University.

While that doesn't sound like much, but it could translate into millions of dollars in extra bond payments over 20 or 30 years. And if overall rates rise substantially, the payout could be even more. Those extra dollars would have to come from some place — ticket holders, concessions and perhaps taxpayers.

A decade ago, even higher interest rates didn't stymie the development of Petco Park. Steve Peace, former state finance director, state senator and currently adviser to former Padres owner John Moores, pointed out that poor city finances at the time required the issuance of above-market, 8 percent bonds to build the downtown ballpark.

Faulconer spokesman Craig Gustafson did not address the potential consequences for the current stadium effort but underscored the longstanding importance of tax exempt financing in San Diego.

"The city has issued tax-exempt bonds for Petco Park — currently $129 million through 2032, $11.3 million annually — and Qualcomm Stadium — currently $56 million through 2026, $4.8 million annually," Gustafson said.

Councilman David Alvarez, who has been critical of Faulconer's task force effort, said Obama's proposal is an example of why the city needs to move more quickly in resolving the stadium question. He was unwilling, however, to say whether he supports eliminating the use of tax-exempt debt for financing stadium projects.

But the political landscape for financing stadiums has changed since Petco, acknowledged Charles Black, a former Padres president.

"I think there is a much more limited appetite among municipalities around the country — and that's certainly true in San Diego — to do large financing to support sports team owners," Black said.

Clearly, others will likely have to step forward to foot the bill, especially so if tax-free debt is no longer available, said Andrew Reschovsky, a fellow at the Lincoln Institute of Land Policy in Massachusetts and a former University of Wisconsin finance professor.

"People want nice stadiums, and owners probably could put up a lot more money," Reschovsky said.

The muni bond proposal was one of many tax changes in Obama's budget and it is uncertain how many of them will be approved — if any — by the Republican-controlled Congress.

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