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Could Obama Budget Kill Arenas in Milwaukee and Seattle?

Planned arenas in Milwaukee and Seattle could face a new hurdle that could potentially prove insurmountable. This coming, of all places, from Washington, D.C. President Obama has his sights on public subsidies for sports stadiums and arenas.

As chief executive of the U.S. federal government, one of the duties of the president is to present an annual operating budget. The feds operate on a fiscal year that starts on October 1st and ends on September 30th, and for the government to function in a given year, an approved budget must be in place. The president typically submits his budget proposal in February to begin the long, rigorous congressional approval process.

Reports came out this weekend about a proposed amendment to federal tax law buried within the 2016 proposed budget that could have significant and lasting impacts on the business of sports in the United States for years to come. That amendment, if approved, could prevent cities, counties, and states from participating financially in arena projects.

For decades, the various sports leagues have relied on public monies to make palaces for their teams a reality. What has frequently been sold as a show of community support of a team has often become outright ransom to keep teams from leaving. According to the Wall Street Journal, in just the past 30 years, about $17 billion have been raised through government bonds for sports facilities.

Milwaukee is currently fielding a proposal by Governor Scott Walker for his state's biennial budget to issue $220 million in bonds toward supporting the arena effort to keep the Bucks. Seattle, of course, has a potential deal that, if approved, could provide $120-$200 million toward an arena in the SoDo district.

Just how could the federal government affect a city, county, or state from borrowing money through the bond process, you ask.

Municipal bonds are issued through these local entities as a means to both support and improve infrastructure. Infrastructure is, of course, publicly owned lands, buildings, and services vital to the proper function of a city. Roads, schools, sewer, utility, and police services all fall under the infrastructure category.

Bonds are technically only supposed to be issued for these purposes.

Long ago, cities began issuing municipal bonds to participate in private stadium and arena projects in the hopes that they would bolster economic development. Arguments have been waged on both sides of the issue for decades, with the sports leagues and politicians generally touting the cultural importance and economists decrying any sort of substantive economic improvement.

Cities don't want to lose their teams, and team owners prefer to make use of municipal bonding capacity because it is federally tax-exempt. This was to make it easier for municipalities to borrow to lessen the cost of infrastructure projects over time.

With no federal tax to worry about, municipal bonds are generally issued with significantly lower interest rates than private borrowers are going to find through channels. Thus, the appeal.

But there's the rub.

The Obama administration's proposal is that, because of that federal tax exemption, the government should enforce the intended use of these bonds. The U.S. Treasury Department estimates that enforcement will save the federal government $542 million over the next ten years.

If passed into law, this wouldn't be the first time the federal government has imposed restrictions against using municipal bonds for sports facilities. According to Stateline from the Pew Charitable Trusts (via USA Today):

> *Over the life of the $17 billion of exempt debt issued to build stadiums since 1986, Bloomberg said, taxpayer subsidies to bondholders will total $4 billion.*
>
> *The tax-free bond provision dates to the 1986 Tax Reform Act. The authors of the bill actually sought to restrict the use of public subsidies for sports teams. The law said that no more than 10% of tax-exempt bonds' debt could be repaid by ticket sales or concession — a provision its authors thought would deter using them to finance stadiums because cities and states wouldn't want to obligate taxpayers to pay off the rest of the financing.*

The intent of the change didn't work because municipalities started to get creative in ways to work around the restriction. This is why increases in hotel, rental car, food, and beverage taxes, as well as securing debt with things like potential parking revenues, have become the common methods for repayment of bonds for sports projects.

Needless to say, this has the potential of drastically altering the sports business landscape as we know it, if passed into law. Could it, in effect, kill potential arena projects in Milwaukee and Seattle?

Not to don the tin foil hat, but there is a strong possibility.

The federal budget will go through its approval process over the next few months. There is a school of thought that any bonds issued prior to the start of Fiscal Year 2016 in October could be grandfathered into tax-exempt status.

If Wisconsin approves some level of municipal bonding through its state budget this year, it's quite possible they wouldn't have to worry about such a restriction.

The earliest Wisconsin's budget can be signed into law is August 6, 2015. If bonding for the Milwaukee arena is approved, however, it's not clear that the bonds could be issued prior to October 1st. That raises some question about grandfathering on the federal tax exemption.

As for Seattle's arena effort, we're likely a year away from the city council and the King County Council even being able to vote to agree to participate in the SoDo project. That could potentially push bond issuance to mid-to-late 2016, and then only if a team is acquired. If the federal tax amendment goes through, this would be too late.

Before anyone ties weights to their feet and picks out the keen spot on the bridge, President Obama's budget proposal still has to go through committee, has to be voted on by both houses of Congress, and then has to be signed into law by the president.

That's a long process over the next few months, and it's by no means a guarantee that this restriction will make it to the final budget.

Still, it’s worth keeping an eye on.

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