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GOP Tax Plan Threatens Big Break for Stadium Bondholders, Putting Raiders Project at Risk.

- The House tax reform bill ends a 60-year run of teams' access to tax-exempt municipal bonds.
- The Senate bill does not include this provision, and it's unclear how the final legislation will shake out.
- Some expect removing this provision could hurt projects like the $1.9 billion domed stadium being built in Las Vegas for the Raiders.
- The Raiders do not expect to issue bonds until next year.

In 1953, the Boston Braves started a trend. They became the first Major League Baseball team to relocate in 50 years, drawn to Milwaukee by a new publicly funded stadium, according to Brookings research. That set the stage for the next 64 years of sports stadium financing.

The recently passed House tax bill would end this six-decade run of teams' access to tax-exempt municipal bonds for building what have become multibillion-dollar stadiums. The change isn't in the Senate bill, but if it makes it into whatever form goes to the president's desk, experts say it threatens the $1.9 billion Raiders dome in Las Vegas and the future of stadium financing.

"If you were going to build a stadium that actually had to be paid for out of the income of the football team, you would never spend $1 billion, let alone $2 billion," said Roger Noll, professor of economics emeritus at Stanford University. "This would affect them enormously."

Fifty-four pages into the House "Tax Cut and Jobs Act," which passed with no votes from Democrats, lawmakers say sports stadiums "do not generally meet the criteria" of public-purpose bonds on which interest is excluded from federal taxes. Under the new provision, the interest on any bonds issued after Nov. 2, 2017, for pro sports stadiums, is taxable.

This could be a problem for the Raiders.

None of the $750 million in bonds Clark County, Nevada, agreed to back for a new stadium have been issued. Las Vegas Stadium Authority officials told CNBC they don't expect the issuance to happen until at least the first quarter of next year. The stadium Authority's preliminary estimates already show a $20 million to $25 million reduction in public contribution without the tax break.

"It will raise costs, the margin projections will now be less, and it would take a longer time to realize the bonds," said Mark Rosentraub, director of the Center for Sport and Policy at the University of Michigan. Rosentraub worked on financial projections for the new stadium on behalf of the University of Nevada, Las Vegas, before the Raiders were involved. "Whether or not it breaks a deal or doesn't break a deal, that's up to a lot of factors and conjecture."

The tax change raises costs for teams but research suggests it could be a boon for federal taxpayers. A 2016 Brookings Institution study showed that pro sports stadiums have spent $3.2 billion federal taxpayer dollars since 2000. The think tank hasn't published forward-looking research but the Joint Committee on Taxation scored the tax savings at $200 million over the next 10 years, which

Brookings researchers said seems “very low.”

“There’s no economic or political reason why a federal taxpayer in Oklahoma should subsidize the movement of the Raiders from L.A. to Las Vegas,” said Ted Gayer, who authored the report and is director of the economic studies program at Brookings. “It’s an egregious misuse of our taxpayer dollars.”

Of 45 major league stadiums that have been built since 2000, 36 were financed at least partially with tax-exempt bonds, according to the study.

“It’s difficult enough to get new stadiums financed these days,” said Steve Greenberg, managing director at Allen & Co., who specializes in sports M&A. “Anything that would take away that tax exemption would make a difficult situation even tougher, whether it’s the Raiders or anybody else.”

It’s not just the Raiders spending big on stadiums. MLB team the Texas Rangers is expecting its $1.1 billion Globe Life Field to open in 2020. The Oakland A’s, in the city which lost its hometown Raiders to Las Vegas and the Warriors to San Francisco, has selected a site near Laney College for its stadium, also opening in 2020.

College teams and major league soccer teams have also leaned on tax exemptions, just with much lower price tags. Pizza Hut Park in Frisco, Texas, now called Toyota Stadium, cost the public $69 million, or 57 percent of its total cost, according to Harvard professor Judith Grant Long’s 2012 book “Public-Private Partnerships for Major League Sports Facilities.”

Financing for the Las Vegas project becomes trickier when you factor in who owns the Raiders. There are 18 billionaire owners in the National Football League, according to Forbes. Raiders principal owner Mark Davis is not one of them.

Los Angeles Rams owner and real estate mogul Stan Kroenke, by contrast, is worth an estimated $8 billion, and is financing the new Rams stadium as a part of his 298-acre sports and entertainment district, without federal support. That scope might not be an option for Davis, who in comparison is worth an estimated $500 million and gets an annual income from operating his football team.

“Virtually every stadium in the NFL has been built within the last 20 years,” Stanford’s Noll said. “The Raiders are sort of at the end of the tunnel, and they’re the ones that get hammered.”

NFL stadiums built in the past two decades have gotten more elaborate and expensive, averaging $2 billion in renovation costs, which Noll attributed to access to public financing and owners’ egos. He compared the modern football stadium to Egyptian pyramids, and owners as today’s “pharaohs,” looking to make a lasting monument.

These “pyramids” are rebuilt roughly every 20 years, which also tends to be when ownership changes, Noll said. If that time frame is right, a few could be ready for a face-lift; Arrowhead Stadium in Kansas City built in 1972, the Chicago Bear’s Soldier Field, which opened in 1924 and was renovated in 2003, and the Buffalo Bills’ New Era Field, which originally opened in 1973. The Washington Redskins have talked about a new stadium to replace FedExField, and a plan to renovate Nissan Stadium in Nashville, Tennessee, was released earlier this year.

In the meantime, the NFL and Nevada legislators are fighting back.

In response to the tax debate, league spokesman Joe Lockhart, told reporters on a conference call that the NFL teams are eager to keep the tax break, and touted stadiums as economic drivers for communities, Reuters reported.

Local lawmakers are looking to make sure their stadiums are exempt when the final version of tax reform gets passed. Despite previous opposition to government-funded stadiums, Republican Sen. Dean Heller of Nevada is lobbying for the Raiders' Las Vegas dome to have access to tax-exempt bonds. Nevada Democrat Rep. Dina Titus said the tax bill in its current form would damage her district, which includes Las Vegas.

"This provision is one of the many reasons why the GOP tax bill is bad for Nevada," Titus said in a statement the day the House passed its tax bill. "In case any of the Republican proposals move forward, I have been working with Rep. [Richard] Neal and other lawmakers to submit a measure in conference committee that would postpone the effective date."

Despite the tax code disruption, there's still bound to be demand for stadiums, said Allen & Co.'s Greenberg. The funding structure will change, and has already started shifting to rely more on private financing, he said.

"That is a trend that you're going to continue to see," Greenberg said. "The days of a municipality ponying up the lion's share of the financing for a billion-dollar arena in this environment, I don't see those days coming back."

Whether a stadium provision makes it into law remains to be seen. The Senate bill, if it passes this week, still has to be reconciled with the House's version before President Donald Trump can sign it. The Senate's version passed the Finance Committee, and next goes to the Budget Committee, which meets Tuesday.

Senate Majority Leader Mitch McConnell still needs to lock in 50 votes and half a dozen Republican senators are still wavering. Undecided lawmakers worry that tax reform, in its current form, would only modestly boost economic growth, significantly increase the national debt and give the biggest tax breaks to the wealthiest Americans, among other factors.

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