
With Stadiums Closed, Municipalities Struggle With Billions in Debt.

Two decades of using borrowed money to pay for new stadiums is coming back to haunt many cities across the country.

At Gila River Arena in Glendale, Ariz., home of hockey's Arizona Coyotes, the coronavirus pandemic forced the cancellation of eight NHL games, a Celine Dion concert and a professional bull-riding tour, but it didn't change the schedule for the city's $10.7 million 2020 debt payment for the venue.

"Are we happy about the slowdown in the revenues that we're going to see in the foreseeable future? No. But we won't be cutting services," said Glendale City Manager Kevin Phelps. The city owes another $12.7 million for Camelback Ranch-Glendale, where Major League Baseball's spring training shut down in March.

Coronavirus lockdowns have emptied arenas and stadiums indefinitely, shuttering professional sports and concert tours alike, and have significantly reduced taxes. When cities issue bonds and use the proceeds to build stadiums, they pledge to make yearly bond payments on the debt, often counting on revenue from sales, hotel or rental-car taxes to cover the payments.

Public officials have borrowed billions of dollars to build stadiums for major teams. Since 2000, more than 40% of almost $17 billion in tax-exempt municipal bonds sold to finance major-league stadiums were backed by levies on hotels and rental cars—making tourism taxes the predominant means of public stadium finance, according to the Brookings Institution.

The borrowers envisioned the sports facilities as a form of economic development that would attract fans from near and far, raising cities' national profile and boosting their revenue beyond what was needed to pay back the bonds. The pandemic has turned that calculus on its head, crushing tourism proceeds and turning stadiums into a strain on city budgets—when cities are already hemorrhaging revenue from coronavirus shutdowns.

The National League of Cities, an advocacy group, projects that American cities, towns and villages will experience a combined shortfall of roughly $360 billion through 2022, raising questions about decisions to allocate public money to sports franchises.

Municipalities' struggle with tourism-linked debt marks the latest strain on the municipal bond market, where millions of investors traditionally put their money as a safe place for retirement. Much of outstanding municipal debt is backed by payments such as property taxes and sewer fees, leading many to consider the securities nearly as safe as Treasurys.

"Investors are looking at what they're holding and the security they have," said Howard Cure, director of municipal bond research at Evercore Wealth Management. "The more exposure to tourist taxes, the more concerned they are."

Prices on a sampling of 20 bonds backing professional and recreational sports facilities are trading at a median 6% lower than they were before mid-February, according to a Wall Street Journal analysis of data from ICE Data Services. The S&P Municipal Bond Index, in contrast, has rebounded almost to its mid-February level.

Maryland Heights, Mo., bonds backing the Centene Community Ice Center, used by the National Hockey League's St. Louis Blues, have fallen from 109 cents on the dollar at the beginning of March to 68 cents on May 21, the last time the bond was traded. The city uses revenue from the facility, which in normal times hosts athletic activities and programs, to cover most of the debt payment of $3.6 million a year.

Finance Director Dave Watson said the city has significant reserves and expressed confidence in the facility's long-term success. "If hockey stays popular, the facility will be fine," he said.

The city, which has a total general-fund budget of $25 million and has seen dips in its casino and hotel revenue as a result of the pandemic, could end up shelling out up to $625,000 toward the debt payment under an agreement to backstop shortfalls.

The risk that empty stadiums will become a revenue drain on cities and counties is greater in some places than others.

Miami-Dade County, which hosted the Super Bowl earlier this year, has already collected nearly twice the dollar amount in sports and tourism tax revenue needed to cover this year's $15.1 million debt payment on Marlins Park, the home of the Miami Marlins baseball team. Most of that money came in before shelter-in-place rules went into effect.

But even if debt payments are covered, tourist taxes are still likely to take a hit.

Jackson County, Mo., is still determining what the temporary closing of stadiums will mean for the county's tax revenue.

"There is no question that we are going to take some sales tax hit from these facilities not being in operation," said Caleb Clifford, chief of staff to the county executive.

The county devotes a third of its total sales tax—the county's largest single source of income—plus an additional $3.5 million in property taxes to debt payments for and management of the Harry S. Truman Sports Complex, where the Kansas City Royals and the Kansas City Chiefs play.

Elsewhere, stadium debt similarly takes up an outsize proportion of tax dollars. In Glendale, a city of 250,000 residents, around 66% of the city's public debt is tied to the city's stadiums and arenas, according to Moody's Investors Service. The hotels, restaurants and stores typically comprise a major source of revenue for repayment of the bonds.

Glendale expects to patch budget holes this year with one-time revenue from new construction and the sale of city property and may have to draw about $1 million from its rainy-day fund next year, Mr. Phelps said.

Mr. Phelps said that the debt load from Gila River Arena and Camelback Ranch is "probably higher than it should be" but that the facilities represent a long-term investment in the city's future, while the pandemic is a short-term crisis. The 2023 Super Bowl and the 2024 NCAA Final Four are both set to take place in Glendale.

No stadium bonds involving major professional sports leagues have defaulted in recent memory, but there are signs of strain.

In April, the Oakland Athletics withheld a $1.2 million rent payment to Oakland Coliseum as it furloughed staff members and cut salaries.

Moody's has placed bonds backing Mercedes-Benz Stadium, home of the Atlanta Falcons, on review for downgrade, while S&P Global Inc. has lowered its outlook to negative on that venue and the BB&T Center, where the Florida Panthers hockey team plays.

Ratings firms evaluate municipal borrowers' creditworthiness and risk of default or nonpayment. While defaults in the municipal market are rare, a lowered outlook from a ratings firm means the bonds are at increased risk of a downgrade, which can drive up the cost of new debt for the borrower and drive down the market value of bonds for the investors holding them.

A default on a community athletic center and ice hockey facility in Minnesota eight years ago shows the long-lasting and costly consequences stopping payment on a sports venue can have for local budgets.

After revenue fell far short of what was needed to cover debt payments and operations at the local sports complex, Vadnais Heights faced the prospect of significantly increasing taxes and fees on residents, according to Kevin Watson, the city administrator.

Vadnais Heights chose to stop making payments on the two-year-old center, plunging the city into three years of litigation with the complex's operator, which ended with the city paying $75,000 in settlement costs. Moody's downgraded Vadnais Heights' credit to junk, where it remained for two years. Such a rating makes investors wary of buying a city's debt and means borrowing is difficult and expensive.

Vadnais Heights' credit rating has since been revised to investment grade, and Mr. Watson said the city's finances are strong.

That kind of scenario, in which a sports facility becomes so much of a burden on local residents that a city or county stops paying, is what is worrying investors about bonds backed by hotel or rental-car taxes.

Julio Bonilla, a fixed-income portfolio manager at asset management firm Schroders, said bonds sold to build stadiums are among the more vulnerable in the nearly $4 trillion municipal bond market.

"Those issuers who are like built-it-and-they-will-come, whether it's convention centers, museums, you name it—you really have to question the viability of something like that," Mr. Bonilla said.

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