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How Could a Buffalo Bills Stadium be Financed? Other NFL Deals Provide Clues.

Buffalo Bills owners Terry and Kim Pegula will be making an equity injection into a new stadium project in Orchard Park, which NFL owners are slated to vote on Monday.

But the bulk of the construction project to replace Highmark Stadium is likely to be paid for with help from New York State and Erie County, according to initial reports.

So where exactly will the state and Erie County come up with the funds to pay it?

"We want to see the Bills get a new stadium and stay in Buffalo," Working Families Party spokesman Ravi Mangla said, "but to give \$1 billion to a family with a billion dollars already does not seem like a smart or prudent use of public funds."

More details are expected to be revealed as Gov. Kathy Hochul and state legislators finalize the state budget, which is due April 1. Negotiations between government representatives and the Bills' parent company, Pegula Sports and Entertainment, are wrapping up on the proposed \$1.4 billion open-air stadium.

Until then, sports economists say they believe the plan will likely follow a similar approach to other stadiums built downstate and recent NFL stadiums constructed using substantial public funds.

Those past stadium deals leave clues for what might have been on the table during negotiations over a new home for the Buffalo Bills.

"I think the days of granting somebody an outright award of money to go build a stadium are gone. But there are still many ways that local and county governments and state governments can help," said New York City attorney Daniel Etna, who has been involved in stadium deals and represented a potential buyer for the Bills in 2014.

In addition to direct construction or maintenance costs paid for by the state and Erie County, there will likely be bonds issued by Erie County to build the stadium, predicts Robert Silverman, a University at Buffalo professor of urban and regional planning.

Other publicly financed stadium deals across the country have partially relied on revenue sources that have included new taxes on hotel rooms, rental cars, event tickets and other tourism items related to stadium events.

"Basically, the state and county would earmark revenue to retire debt, and it all works if the new stadium generates additional revenue and economic growth," Silverman said.

How Las Vegas and Minneapolis crafted deals

Since the Giants and Jets completed their new NFL stadium in 2010 in East Rutherford, N.J. - built

mostly using private funds – there have been two NFL stadiums built using substantial public funding, as will likely be the case in Buffalo.

The amount of public funding provided by the government for a new Bills stadium may eclipse the previous high of \$750 million given to the Las Vegas Raiders to build their stadium completed in 2020.

That was for the \$1.9 billion Allegiant Stadium as the franchise moved from Oakland at the time. The Raiders contributed \$1.15 billion for the build.

The Buffalo News has previously reported that NFL owners are expected to vote on Monday on a maximum \$200 million loan to the Pegulas for a new Buffalo Bills stadium. Up to \$150 million of the loan is forgivable, repaid through the visiting teams' share of Bills ticket revenue over 25 years, and is contingent on both public financing and the Pegulas contributing at least \$200 million of their own equity to the project, according to the terms of the league's "G-4" loan program, which helps fund stadium construction and renovations.

That would leave about \$1 billion to be financed through public sources for the Buffalo Bills deal, although Erie County Executive Mark Poloncarz pushed back on that figure last week.

The public portion of the funding for Allegiant Stadium came from municipal bonds issued by Clark County, backed by the proceeds of a new tax on hotel rooms in the Las Vegas area that began to take effect three years before the stadium's construction was finalized, according to reports.

For the \$1.08 billion U.S. Bank Stadium in Minnesota, finished in 2016, the state's share of the stadium project was nearly half, at almost \$500 million. It was funded mostly by proceeds from electronic pull tab gaming and a corporate tax.

Smaller markets have less leverage

Government subsidies remain a big part of some of these stadium deals as teams, especially in smaller professional sports markets like Buffalo, can hold much of the leverage in negotiations.

The Bills are the second smallest market in the NFL and Buffalo is the 49th largest metropolitan area in the U.S., according to the Census, so if government officials tried playing hardball with the team's ownership on the reported \$1.4 billion stadium deal, there are at least a dozen larger cities that could have stepped in as a potentially desirable location to move.

"These government packages aren't one size fits all," said Etna, the partner and co-chair of the sports law group at New York City law firm Herrick. "It's a facts and circumstances thing."

Tax generation cited by PSE report

An early report commissioned by Pegula Sports & Entertainment noted that the Bills organization has a more than \$200 million payroll, contributing taxes from Bills players and other employees. The Bills' payroll in 2019 was nearly \$259 million, which was worth almost \$20 million in state income taxes, according to the economic impact study.

Victor Matheson, a professor and sports economist at the College of the Holy Cross, said New York has one of the highest athlete and entertainer traveler taxes in the country, which many states have now adopted. Coupled with an already high state income tax rate, it generates sizable revenue.

"With New York's relatively high-income tax rates ... and in a world where you have some pretty

high salaries and an entertainment tax for visiting entertainers, that's quite a bit of money," Matheson said.

Yankee Stadium built with tax-exempt bonds

There are other ways governments can assist in a stadium project without direct subsidies, according to Etna.

Many stadium deals have used tax-exempt municipal bonds, allowing a large amount of tax revenue that would have been collected by the federal government to go toward construction costs.

According to a report from Brookings Institute, the \$2.5 billion Yankee Stadium, completed in 2009, was financed using \$1.7 billion in municipal bonds issued by the City of New York. The think tank estimated that the federal government subsidized \$431 million of the project through the loss of tax revenue.

"They were satisfying the debt service on publicly issued bonds by a governmental entity that had the tax-exempt rate, rather than the taxable rate," Etna said of the tax savings received by the Yankees.

The Raiders received \$700 million in debt financing from the State of Nevada but it was under a few conditions, according to Etna.

One was that the Raiders allow the University of Nevada, Las Vegas to use their new stadium. The agreement required the Raiders putting in a turf field so that games could be played on consecutive days, if need be, since the university plays most of its games on Saturdays. The Raiders originally wanted a grass field but changed course because of this agreement, Etna said.

Big stadium lenders like Bank of America or Goldman Sachs can also be involved in helping finance a stadium.

It's how a portion of both Yankees Stadium and Citi Field for the Mets, as well as some other stadiums, were paid for in past projects, according to Etna.

However, government entities typically would prefer not to worry about another creditor or non-governmental entity in the deal to avoid inter-creditor issues or loss of control over the debt.

Instead, they sometimes partner with other state entities in helping to fund a stadium, such as, in New York, the Empire State Development Corp.

Other options seen as spurring development

Also, the state could provide tax increment financing to build up development projects around the stadium, according to Matheson of Holy Cross. He described this as a better tool than direct subsidies and said it provides incentives for teams to develop the area around the stadium.

This could be important for the Bills in Orchard Park, where there has been little spinoff development around the stadium since it was built about five decades ago.

"It's certainly an option and a much better one than a flat sales tax for the state or for Buffalo," Matheson said.

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