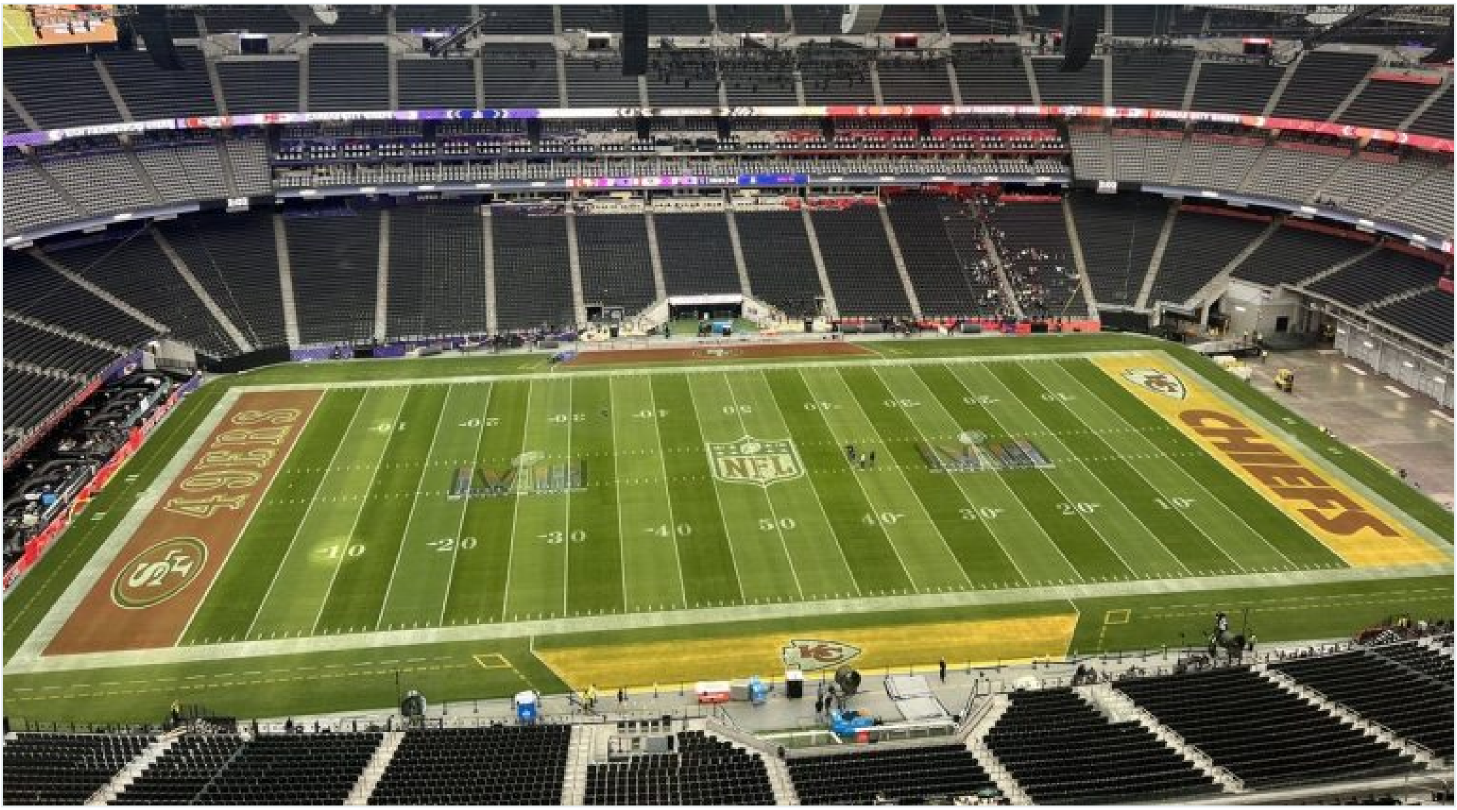
owners while fueling federal deficits.

Feb. 27, 2024



By Girard Miller, Governing (TNS)

With Super Bowl LVIII fresh on our minds, it's a good time to think twice about the local economics of professional sports. The teams are typically owned by billionaires who have become experts at playing one city off against another to secure public subsidies for the sports stadiums in which their teams play. Local public officials are trapped in a no-win situation, which pits their residents' love for local teams against the perverse economics of tax-privileged stadium financing.

Since the days of the Roman Colosseum, humans have reveled in their spectator sports in huge arenas. Local officials face enormous political pressure to cater to these cravings. Mayors of center cities, like Washington, D.C.'s Muriel Bowser,

For local officials, there are multiple ways to support construction of a new sports stadium. They can void land-use restrictions, and they can build roadways to connect the facility to the area's transportation grid and even link mass transit to the stadium. All those efforts have a local cost. The one expense that they often export to Capitol Hill is the use of tax-exempt municipal bonds to finance the facility itself. For that, the bill gets sent to Uncle Sam, which in turn helps fuel the federal deficits that everybody complains about.

Last year, municipalities issued more tax-exempt debt for sports venues than in any year since 2006, according to Bloomberg data. Some three-quarters of the 57 stadiums built from 2000 to 2019 were funded with tax-exempt bonds, at a net cost to federal taxpayers of $4.3 billion. With more massive, shiny new stadiums opening since, that number has only gone higher.

To add insult to injury, the quantified cost savings to stakeholders and users of these facilities were less than the cost to federal taxpayers. It makes absolutely no sense for Congress to engage in deficit finance to subsidize facilities that return only 84 cents on the dollar to local communities, the teams and their fans. Uncle Sam is borrowing money to lose money across the board.

To be clear, there are sometimes good reasons—and better ways—for local officials to work collaboratively with professional sports teams to facilitate stadium construction. The Las Vegas Stadium Authority is a good example: The city and surrounding Clark County are highly dependent on tourism and have learned in recent decades that there's a big payoff to local businesses and employment if they can support an ecosystem that brings in more spectators for live sports. After all, a good number of those sports fans will also stay in local hotels, hit the blackjack tables and take in a Blue Man Group show, generating jobs and tax revenue, so it made perfect sense for those civic leaders to lure the Raiders away from Oakland with

Public purposes vs. private enrichment

If local agencies were to issue only taxable municipal bonds to fund sports stadiums, it would be hard to complain about that. When taxable munis can beat the prevailing interest rates and repayment terms in the corporate bond market by leveraging the community's bond rating and reputation, there's little downside—as long as it's non-recourse debt that doesn't fall to taxpayers if the stadium can't collect its rents.

So the issue with tax exemption here is whether federal taxpayers and deficit hawks should stand silent when ultra-cheap money is dished out to the billionaires who own the sports teams while also further plumping up the fat-cat investors who dodge federal income taxes by collecting municipal bond interest. Those are the two worst sides of these "tax expenditures." Fiscally, it's an insult piled on top of injury.

Admittedly, the muni market has ample capacity to absorb these bonds presently, but eventually there will come a day when all of this unnecessary tax-exempt stadium debt requires higher interest rates to finance schools, roadways, public power, bridge replacements and flood control.

Here's the technical problem: Most of the stadium deals are classified as "private-activity bonds," which means they ostensibly serve a purpose deemed important to public agencies to qualify for a tax exemption even though much of the project actually benefits private parties. Congress has tried to discourage federal subsidies to private parties but made only a half-hearted effort. As a result, some of the interest paid to investors on these private-activity bonds is subject to the federal alternative minimum tax (AMT) for the wealthiest of muni bond investors. At least, that was the theory. In practice, not so much.

The AMT is mostly collected from just a handful of one percenters who already enjoy

interest rates on such bonds are somewhat higher than plain vanilla muni bonds, usually by a quarter- to a half-percent. That makes them even more attractive to all but the very richest bond investors. The result is a perversely costly, super-generous tax exemption for 4.8 million savvy, affluent bond buyers, just to give cheap money to maybe 100 team-owning billionaires. No matter one's politics, this is undeniably one of the most regressive of all U.S. tax policies. It's a wealth tax in reverse.

A bipartisan-sponsored bill was introduced in Congress last year to eliminate this tax preference. It's gone nowhere, and surely will die with the end of this deadlocked congressional session. The only way this rule will change would be inside a broader tax-reform package next year or later, when the 2017 tax cuts expire and Congress has no choice but to revisit all these loopholes in what's already being called the Super Bowl of tax policy. Nonetheless, it's a safe bet that unless Democrats gain operational control of both houses with fiscal progressives resurgent—or the GOP cuts a horse-trading deal to preserve lower brackets for the rich—this reform will face headwinds without repackaging to paint some lipstick on this pig of a tax shelter.

Interestingly, the normally progressive public-sector associations have opposed such reforms on the basis that it's tinkering with their hallowed muni bond tax exemption. That's understandable but short-sighted. Their stance sweeps under the rug the beggar-thy-neighbor game that local leaders are losing repeatedly by supporting this regressive stadium bond policy, not to mention the ancillary costs to local governments that sports team owners now expect.

Inevitable tax policy transitions

Ultimately the entire private-activity bond exemption is unsustainable. Mounting interest on persistent federal deficits will eventually crowd out spending for essential and vital federal functions like defense and preserving underfunded Social

Security and retirees' medical insurance. At that point the municipal private-activity

list, so muni lobbyists will eventually need to pick their poison. To paraphrase Abe Lincoln, it's sometimes necessary to lose a limb to save the body.

Unless Congress attaches a profit-sharing requirement that obligates team owners to give over a sliver (say 6 to 8 percent) of their associated pre-tax business income to muni bond issuers and the IRS, the stadium bond tax exemption should be repealed for new deals.

On a broader level, my suggestion is that Congress should begin an orderly multiyear phase-out of the entire private-activity bond subsidy. A reasonable transition might require that in each year another 10 percent of new-issue principal must carry taxable interest until the federal subsidy is eliminated entirely for bonds sold after 2035.

There's no better place to start than with stadium bonds. This would provide an equitable, incremental and manageable transition that fiscal realists at all levels of government could not dispute. Profit-sharing deals with a realistic expectation of IRS revenue neutrality could still use tax-exempt bonds if the private beneficiaries secure a qualifying faithful-performance surety to backstop their financial projections.

Countering those who would argue that private-activity bonds have shades of gray with varying levels of private enrichment, the case against stadium bond tax giveaways is black and white. Arguably they don't even deserve a phase-out and belong at the top of any sensible list of tax preferences to jettison one way or another, the sooner the better.

New bond buyers with ample appetite

This reform would not be contractionary for the muni market: If and when private-

you believe that, I have a tax-exempt Brooklyn Bridge to sell you. The spectacular new SoFi Stadium in Southern California was funded entirely with private money. As long as the reform is uniform, the loss of tax exemption for sports venues would put an end to the dilemma that civic leaders face when predatory team owners play blackmail with their threats to move elsewhere. A profit-sharing requirement would actually turn the tables and open the kimono in those negotiations.

Putting partisan or progressive politics aside, my point is that there are plenty of other far more important public endeavors that deserve federal income tax exemptions and lower financing costs.

If the end result of making stadium bonds taxable is that it costs an extra dollar for the excitement of a stadium experience, and that I must pay slightly higher streaming TV fees to ESPN, Peacock or Amazon to offset the sports leagues' foregone tax-exemption subsidies, we fans should all consider that our contribution to the reduction of federal deficits. Certainly, if the result is a little less profit for billionaire team owners who play one city off against another, I'm all for that.
Otherwise Congress is just feathering fat cats' beds and local officials are their unwitting accomplices. If municipal officials cannot say no, then Congress should, by phasing out these unwarranted federal subsidies.

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