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On Deck: Financing Sports Facilities in Texas

The Houston Oilers, lured by the promise of a new sports facility, will become the Nashville Oilers after the 1997 football season. Houston residents, in an effort to keep the Rockets and the Astros in Houston, passed a referendum in November 1996 authorizing the city to build a new downtown baseball-only park and renovate the Astrodome to correct bad sightlines and add luxury suites. Local officials estimate the cost of their proposed new stadium at $265 million.

The San Antonio Spurs, which have played basketball in the Alamodome since 1993, want a new facility designed specifically for basketball and featuring luxury boxes. The price tag for the facility is unknown. The Dallas Stars and Mavericks want a new basketball and ice hockey arena to include luxury boxes, club seats, and additional concession areas. The cost of a proposed arena is estimated in the range of $180 million to $220 million.

Central to the debate over whether to build these sports facilities — and others proposed elsewhere in Texas — is the issue of financing. So far this session, four bills have been introduced to help Texas localities in the economic tug-of-war to attract and retain professional sports teams.

Professional Sports Spur Economic Rivalries

Professional sports are big business in Texas, which now boasts eight professional sports teams: the Texas Rangers, Dallas Mavericks, Dallas Stars, Dallas Cowboys, Houston Oilers, Houston Rockets, Houston Astros and San Antonio Spurs. According to the state Comptroller's Office, the sports industry in Texas attracted 6.5 million paying fans in 1992 and generated approximately $860 million for the state's economy. Revenue in 1992 from ticket sales, cable television contracts and advertisers, and stadium revenues for the seven professional sports teams then playing in Texas was over $300 million, with another $603 million generated through stadium-related business activity. In 1993, the combined worth of those seven teams in Texas was estimated at $705 million.

City and county development authorities are well aware of the economic benefits of hosting a major league team. This has led to increased competition for existing and expansion sports teams. One way

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cities can attract a team is to offer incentives to relocate — luxury suite rentals, club seats and lucrative cable TV contracts top the wish lists of team owners lured by the promise of a state-of-the-art facility.

In the last two decades, cities across the United States have used sales taxes, lottery funds, and other financing mechanisms to build new facilities in order to keep existing teams or attract new ones. But the situation is different in Texas, where the state allows relatively few public financing options for stadium renovation and construction. With the Houston Oilers preparing to move to Nashville, the national debate over stadium financing has hit home. As other cities and states build new sports facilities to attract professional sports teams, Texas municipalities and teams have requested authority to use various public assistance options to renovate or build new facilities to keep Texas teams in Texas. At issue is what kind of public assistance, if any, is proper.

Texas Looks for New Pay Options

At the end of the 74th legislative session, Speaker Laney directed the House Business and Industry Committee to study the issue of public financing of sports facilities. Under Chairman Kim Brimer, the committee conducted town hall meetings to discuss the issue. The committee's recommendations were incorporated in HB 92 by Brimer.

This is not the first time that Texas lawmakers have tackled the issue of financing for sports stadiums. The 71st Legislature in 1989 enacted HB 1738 by Craddick, authorizing certain counties to form sports districts with the purpose of building new sports facilities. These sports districts can acquire land for a stadium through eminent domain and can issue bonds to finance a new facility. However, the law does not give sports districts taxing authority or identify mechanisms to service bond debt issued by the district. In addition, it only applies to counties with populations of fewer than 2.4 million residents. Municipalities such as San Antonio and Arlington have used other authority to issue bonds, raise sales taxes, and service bond debt to finance stadium construction.

Some municipalities have financed sports facilities under the Development Corporation Act of 1979 (Labor Code, art. 5190.6), which permits development corporations to issue bonds and levy taxes to service bond debt. Upon approval of voters, these corporations may levy a sales and use tax of up to one-half percent, so long as the municipality did not exceed the two-percent maximum on local sales taxes. The 72nd Legislature in 1991 expanded the scope of development corporations to include tourism, athletic and entertainment facilities when it approved SB 376 by C. Harris, which established "4B" corporations in addition to existing "4A" industrial and manufacturing corporations. However, municipalities can create only one development corporation, and cities that already levy the full additional two-percent local tax above the state tax cannot impose any additional sales and use taxes.

During the 74th regular session, the Senate passed SB 1346 by West to allow the use of state funds and special local taxes to build facilities for major league sports teams. The bill would have created sports facility enterprise zones with the authority to issue bonds to build sports stadiums. The bill proposed a combination of mechanisms for servicing bond debt, including parking and admissions taxes and tax increment financing. SB 1346 was killed on a point of order in the House.

This session, HB 92 by Brimer would allow cities and counties or a combination of the two to designate sports venue districts. These districts could issue bonds to build sports venue projects once they gained voter approval through a referendum. Projects could tap a variety of funding mechanisms, including a half-cent local sales tax, $2 per day car rental tax, $2 admissions tax, $1 parking tax, and a $5 per day hotel occupancy tax.

SB 944 by Whitmire would allow the city of Houston and Harris County to create a sports venue authority to issue bonds for stadium construction. It would not allow any increase in local sales taxes but would permit the authority to retain increased sales tax revenues attributable to a stadium project in order to service bond debt. It also would allow a five-percent car rental tax, $2 admissions tax, $1 parking tax, and a two-percent hotel occupancy tax to pay off the bonds.

SB 935 by Madla would allow San Antonio and other cities in counties with populations of less than 1.5 million to build stadiums and community venue projects. Possible sources of revenue for servicing bond debt include a 10-percent car rental tax, $1 admission tax, and 50-cent parking tax.

In addition, HB 1525 by Oliveira would address stadium financing issues by expanding permissible uses of 4A sales taxes to include building sports facilities. One possible use of such a financing mechanism would be development of a major league baseball spring training facility in the Lower Rio Grande Valley that could compete with the training camps in other Sunbelt states.

Current Trends in Financing Mechanisms

Over the past century, a variety of funding and revenue-generating mechanisms have been used to build new sports facilities. During the early 1900s, when professional sports took off as a real business, team owners built and financed their own stadiums to ensure state-of-the-art ballparks. Privately financed stadiums were the norm until the post-World War II boom, when stadium construction was viewed as a productive public works project. These types of projects continued through the 1970s. But during the 1980s and 1990s, many stadiums were built through a combination of public and private funding.

Cities with professional sports franchises have used a combination of tax incentives, user fees, and increased sales taxes to finance new sports facilities, as well as some newer revenue-generating innovations, such as the sale of naming rights and luxury and club seats. Tax incentives typically are used to generate development of sports facilities in economically depressed areas of a city or county. These incentives, which have various names and operating mechanisms, include:

- **Enterprise zones.** Municipalities designate enterprise zones based upon unemployment levels and lack of private investment in an area. Under state law, each municipality may nominate up to three areas for designation as enterprise zones. Businesses are offered tax refunds and abatements as incentives to remain or locate within the designated enterprise zone. Furthermore, a business within an enterprise zone may be nominated as an enterprise project and qualify for sales tax rebates. A city could designate a new stadium as an enterprise project and use tax refunds and abatements to help finance the project.

- **Tax Increment Financing (TIF).** An enterprise zone is automatically a TIF zone. TIFs channel to neighborhood economic development projects the property tax revenue increases stemming from their inclusion in the enterprise zone. The extra revenues — the “tax increments” — are deposited into a tax increment fund, which is then used to service bond debt on economic development projects in the enterprise zone.

- **Reinvestment zones.** These zones work like enterprise zones but are easier to establish because they have less stringent criteria, and there is no limit to the number of zones that may be created in each municipality. A city or county may nominate a blighted area in need of investment and employment as a reinvestment zone and use tax increment financing and tax abatements to attract private investment to the area.

User taxes, which normally target the consumer who uses and benefits from the item being taxed, are common means of servicing bond debt incurred to build a sports facility. An increase in the local sales tax for a certain period of time is a particularly popular financing mechanism. Others include parking taxes, typically amounting to $1 or $2 levied on cars parking at the facility during events, and admission taxes, normally about $2, added to the price of each ticket sold to events at a new stadium.

On the theory that visitors are attracted to an area because of a facility, some local jurisdictions have imposed local car rental and hotel/motel taxes to generate revenue for a facility. Comisky Park in Chicago, for example, was financed through an additional two-percent local hotel tax and a five-percent statewide hotel tax.

Alternatives to user fees have sprung up in the past few years. These innovative financing mechanisms range from one-time infusions of substantial cash to steady, long-term income streams. Naming rights, for example, can produce big money up front for a new facility. The Cleveland Indians purchased the naming rights for the new Jacobs Field for 20 years, paying $13.9 million to name the stadium after their former owner, Richard Jacobs. Coors Brewing Company paid $15 million to name the new baseball park in Denver.

Many cities, including Arlington and Charlotte, have used public seat licenses (PSLs) to generate revenue early in the stadium construction process. PSLs give individuals and companies the option to purchase season ticket seats for the life of the facility or for a specified time period. Fans pay a fee for the right to purchase the seats in addition to the amount of the tickets.

Cable TV contracts and leases on executive suites and club seats at stadiums constitute the largest revenue streams for stadium owners. The New York Yankees baseball team, which enjoys one of the highest franchise values, is paid $40 million per year for its cable television contract. However, distribution of such funds depends on the agreement between the stadium owner and the sports team. The 122 luxury suites at the Ballpark at Arlington generate approximately $11 million in revenue each

Sports Facility Financing in Action

- **The Ballpark at Arlington.** The Texas Rangers baseball team played at Arlington Stadium from 1972 to 1993. In 1989, the team decided it had outgrown Arlington Stadium, a former minor league baseball park lacking luxury boxes. The City of Arlington proposed the Ballpark adjacent to the existing site in 1989, using a provision in a law passed by the 72nd Legislature (SB 376, C. Harris) to levy a half-cent sales tax to build a new sports facility. It also used seat bond options (similar to PSLs), a $1 ticket surcharge, luxury suite rentals, and a $500,000 per year city appropriation to service the bond debt. Currently, the city owns the stadium; the Rangers pay $2 million annually in rent, with the option to allocate all rent toward purchasing the Ballpark.

- **Oriole Park at Camden Yards, Baltimore.** After the Baltimore Colts relocated to Indianapolis in 1984, the City of Baltimore began to look at ways to finance a new sports facility to keep the Orioles baseball team in town. In 1986, the Maryland Legislature created the Maryland Stadium Authority to issue bonds and pay debt through a special sports lottery. Under Maryland law, a referendum was not needed to approve construction of the park or its financing methods. The authority owns and rents out the park and collects a 10 percent admissions tax.

- **Jacobs Fields, Cleveland**. The Cleveland Indians baseball team played in Cleveland Municipal Stadium for over 50 years. During the late 1980s, the team began to consider moving to another city because of the outdated conditions of the stadium. To keep the Indians in Ohio, the state legislature enacted a law allowing certain corporations to issue bonds to finance sporting facilities. The law also authorized a half-cent sales tax, $3 per gallon liquor tax, and a 4.5 cent tax on each pack of cigarettes to service the bond debt. County residents approved the taxes through a referendum. The team pays rent on a graduated basis and does not have any ownership rights to the new facility.

- **The Alamodome, San Antonio.** The 70th Legislature in 1987 enacted HB 2008 by Berlanga allowing the City of San Antonio to raise the city sales tax rate through its Mass Transit Authority. The half-cent tax was levied for five years and paid for the construction of the Alamodome. Rather than issue and then pay off bonds, the city levied the tax and used the money to directly pay for stadium construction. The facility was originally designed as a football stadium, but San Antonio was unsuccessful in attracting a professional NFL team and since 1993 has rented the stadium to the Spurs for basketball games.

year. The City of Arlington received all revenue from luxury box rentals from the first season at the Ballpark; the revenue now goes to the Rangers.

Establishing a special sports lottery to service stadium debt is popular in states without statewide lottery games. Both Maryland and Wisconsin financed new stadiums through special sports lotteries.

The Debate over Using State Resources for Team Efforts

Some say the Legislature should allow more direct public assistance to be used to finance sports stadiums in Houston, Dallas, San Antonio and other Texas cities and counties that are trying to keep or attract professional sports teams. Others say the state should limit its help to removing any obstacles to local funding of locally approved projects or should avoid public subsidies to privately owned sports facilities.

Supporters of public assistance to finance sports stadiums say it should be allowed as an option to facilitate stadium construction in Texas. Professional sports teams and stadiums are a positive economic and cultural boost for every Texan. As a result of stadium events, surrounding restaurants, hotels, and stores see increases in sales receipts and property values.

If local voters approve, local government should be able to employ a wide array of public financing options to encourage this clean, economically beneficial industry to stay in or relocate to Texas. Too many restrictions on public financing options put Texas cities at a severe competitive disadvantage with cities elsewhere in the nation.

The business of sports has proven to be good for the Texas economy. In 1993, the comptroller reported the total economic impact of Texas' professional sports teams at $860 million per year. That year, tickets, stadium revenues, and licensed merchandise generated approximately $51.2 million in sales tax revenue. Stadium revenues alone contributed $1.9 million in sales tax.

Employment in and around stadiums boosts the local as well as the state economy. The eight professional sports teams in Texas employ approximately 260 professional players and 1,400 staff people, and the facilities themselves hire even more workers. Public contributions to stadium construction are repaid many times over through increased economic activity around a new facility.

The business of sports spurs further economic development. New stadiums will generate additional tax revenue by attracting other major sporting events. With updated and larger sports facilities, Texas could host major sporting events, such as the Superbowl and All-Star games. For example, the Houston International Sports Committee hopes to host the Pan Am and Olympic games in the future, and new sporting facilities would help attract these events to Texas. The economic impact of large events would be felt statewide.

Winning sports teams increase the state's prestige nationally and internationally, and, as a cultural asset, contribute to the quality of life of all Texans. According to the Comptroller's Office, the sports industry in Texas attracts 6.5 million paying fans each year. But more than just Texans enjoy the state's professional sports teams — in 1993, the economic contribution of tourism due to professional sports teams in Texas was over $100 million.

New sports facilities help Texas teams stay competitive with other teams in their leagues. Teams contemplating relocation because of poor playing facilities in their existing home cities are being lured by other cities in states that are actively helping to build state-of-the-art sports facilities in order to gain new teams. Maryland, Illinois, Ohio, Florida, New York and Pennsylvania all have recently built stadiums using state funds. Public help to finance improvements to existing facilities and construction of new facilities is needed to ensure the teams remain in Texas.

Opponents of public assistance say limited public resources should not be wasted on construction of sports facilities. Public money should be devoted to higher priorities, such as education and public safety. Gov. Bush expressed the sentiments of many Texans when he stated in more than one public forum his opposition to using higher sales taxes to finance sports facilities.

If professional sports franchises are such effective generators of wealth and economic development, then their owners and those who stand to benefit financially from these teams or who enjoy watching them play should be the ones to pay for the stadiums. Limited public resources should be spent on projects that benefit a broad range of people, not just a select few. Public subsidies of sports facility construction are just another form of corporate welfare. If those at the bottom receiving public assistance are to be forced to pay their own way, so should those at the top.

Public money used to finance sports stadiums does not always provide a good return on investment. A sports facility actually adds relatively little money to a local economy. Economists have found that sporting events generally are attended by local residents who would spend their income on other local entertainment options if the stadium did not exist. In addition, many stadium jobs are low-wage, low-skill jobs. The seasonal nature of these jobs contribute to a short-term local economic boost at best.

State legislation for sports facility construction is not needed. Municipalities already have a variety of funding options available to them, including designating enterprise and reinvestment zones. Local citizens should pay for all local economic development projects, including stadiums.

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