Nevadans for the Common Good

Seven Hidden Risks in the Stadium Plan

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The key question for evaluating public subsidies for projects like the proposed domed football stadium ("Stadium Plan") is who pays and who benefits. The developers of the plan are asking for $750 million in public money. They claim tourists will foot the bill and that the stadium will bring great economic benefits to the community. Nevadans for the Common Good (NCG) has studied the Stadium Plan and has concluded that this is a bad deal for taxpayers with an unacceptable level of risk for the residents of Clark County. We cannot afford to gamble $750 million of public money on a deal without guarantees for more substantial public benefits. We have identified seven risks to the public that haven't been adequately discussed.

1. Taxpayers bear the risk of a stadium bond default.

To raise the $750 million in public funding, Clark County will issue general obligation bonds for the full amount to be paid over 33 years. Revenue to pay off this bond will come from a .88% increase in the room tax.

But, a general obligation bond is secured by a state or local government's pledge to use legally available resources, including tax revenues, to repay bondholders. This means that our taxes will be used to cover the bond payments if the room tax revenue is insufficient. Our property taxes could be increased to pay off the stadium debt, or services could be cut.

Residents of Cincinnati have seen a public hospital sold and mass-transit investments postponed in order to pay debt on Paul Brown Stadium, home of the Bengals. (Bloomberg, Dec. 13, 2013)

2. There is a huge risk that room taxes will be insufficient when the next recession occurs.

The revenue to pay for the bond issue is predicated on room occupancy rates holding strong. However, history shows us that room occupancy is affected by the economy and available discretionary income (see chart below). In 2007, total visitor volume in Las Vegas was 39,196,761. When the recession hit, visitor volume went down to 37,481,552 in 2008 and even lower, to 36,351,469, in 2009. It took until 2012 to get back to pre-recession visitor volume, 39,727,022.

In this same period, room tax revenue also declined as shown in the chart below. Between 2007 and 2009, room tax collections went down 30 percent. For the Las Vegas Convention and Visitors Authority (LVCVA), revenue dropped from $219,713,911 to $153,150,310, due to the recession. It took seven years, until 2014, to meet or surpass pre-recession levels of collected room tax revenue. The proposed bond issue is for 33 years. What are the chances that we will have at least one other recession in the next 33 years? And what will that do to the room tax revenue needed to repay the bond issue for the stadium?

Historical Las Vegas Visitor Statistics

Source: Las Vegas Convention and Visitors Authority (lvcva.com)

Year	Visitor Volume	Room Tax Collections
2007	39,196,761	$219,713,911
2008	37,481,552	$207,117,817
2009	36,351,469	$153,150,310
2010	37,335,436	$163,809,985
2011	38,928,708	$194,329,584
2012	39,727,022	$200,384,250
2013	39,668,221	$210,138,974
2014	41,126,512	$232,443,537

3. By not choosing revenue bonds, the Stadium Plan places the risk on taxpayers.

Instead of general obligation bonds, there is another type of bond that could be used, a revenue bond. This is a bond supported by revenue from a specific project like a toll bridge. These bonds are used to finance income-producing projects and are secured by a specific revenue source.

If we were to use revenue bonds for the Stadium Plan, the room tax would be the source of revenue. If there were insufficient room tax revenue, the people who bought the bonds would bear the risk. By choosing general obligation bonds instead of revenue bonds, the Stadium Plan places the risk on the taxpayers instead of the investors. Why would developers choose general obligation bonds over revenue bonds? Since revenue bonds carry more risk, they pay a higher interest rate. The developers would not be able to borrow as much public money, or they would need to increase the room tax by a larger amount.

4. 33-year bonds vastly increase the cost to the public.

Although the dollar figure being discussed is $750 million, the cost to the public is much higher because the bonds need to be paid back with interest. The total cost will be over $1 billion (in present day dollars). The Stadium Plan calls for a 33-year bond instead of the more standard 20- or 30-year bond. We estimate that choosing 33-year bonds instead of 20-year bonds leads to over $250 million (present day dollars) in additional interest payments by the public. For this projection, we are using an interest rate of 3% for the 20-year bond and 3.5% for the 33-year bond.

Why might the developers have chosen a 33-year bond? A longer term reduces the annual payment, which enables them to borrow more public money and enact a smaller room tax increase. The downside of this strategy is a higher cost to the taxpayer.

5. The stadium bonds limit Clark County's ability to invest in other projects.
Clark County has a limit on its bonding level based on a variety of financial factors. Because of the size and length of this bond, it has a huge impact on the capacity of the county to build parks and other infrastructure for an extended period of time. This is the largest amount of public money in US history to build a stadium. The Cincinnati stadium as mentioned above demonstrates how an investment of this size impacts the local government's ability to provide necessary infrastructure the public needs. This drain on bonding capacity exists for the life of the bond – 33 years in the Las Vegas proposal.

6. History shows that a stadium is a money pit.
A stadium has large maintenance and renovation costs in order to draw major events and keep it state-of-the-art. Locally, the Thomas & Mack Center received a $72.5 million renovation last fall. This is standard if stadiums want to stay competitive.

The Raiders helped set the precedent for the modern ritual of threatening to leave a city unless a stadium is completely renovated or a new stadium is built. "Oakland and St. Louis are still making substantial annual payments on the debts that remain for now-obsolete stadiums that were built to lure the Oakland Raiders and St. Louis Rams away from Los Angeles in the 1990s." (Roger Noll, Stanford News, July 2015)

Harris County, which owns the vacant Astrodome Stadium in Houston, projects that it will take 22 more years to complete the $48 million in debt and interest payments that are owed, nearly as much as the original cost of construction. The debt is so complex and has been refinanced so many times that county financial managers disagree as to how much the county actually owes.

Additional money hasn't prevented stadiums from becoming obsolete. Taxpayers have continued to pay off debt for years after a stadium is no longer usable or even after a stadium has been demolished.

For example, the Kingdome in Seattle was in disrepair in 1994, and the city financed the millions of dollars needed to repair and update the facility with a 20-year debt payment structure, which was set to expire at the end of 2015. The facility was imploded on March 26, 2000, and the city continued to pay on the debt until the spring of 2015.

The Georgia Dome was completed in 1992. It is scheduled to be demolished in 2017 after only 25 years of use.

Finally, the likelihood of cost overruns raises the issue of the 39% cap on public funding that was removed from the Stadium Plan. The $750 million public portion is 39% of the total stadium cost of $1.9 billion. Why remove the 39% cap on public money unless you're planning to increase the public subsidy or reduce the total cost?

7. Stadium benefits are based on unrealistic projections.
The Stadium Plan projects 46 events, but a previous study of a domed stadium for UNLV projected only 21 events. (UNLV CIAB Study, Sept. 2014) Adding ten NFL games to this total still adds up to only 31 events.

In comparison, Levi Stadium in California hosted 13 third-party events such as concerts, SuperaCross, soccer matches and rodeos in its first year of existence. It has hosted 21 total events since 2014. Met Life Stadium outside of New York City has hosted an average of nine third-party events per year outside of NFL games.

In the Rosentraub study submitted to the SNTIC, they include the disclaimer that "too many economic impact studies for mega-events centers performed for numerous other cities and regions have a long history of projections that were never realized (Maennig & Zimbalist, 2012; Sanders, 2005; Rosentraub, 1997)." For example, mega-concert estimates are difficult to make accurately. In that same Rosentraub report, they noted that mega-concerts in Boston, Chicago, Toronto, and Los Angeles have ranged from three to none in any given year.

Economists who have studied past examples agree that stadiums do not generate significant local economic growth. Stanford professor emeritus Roger Noll said, "NFL stadiums do not generate significant local economic growth, and the incremental tax revenue is not sufficient to cover any significant financial contribution by the city." Noll, a senior fellow at the Stanford Institute for Economic Policy Research and former senior economist for the President's Council of Economic Advisers, is an expert on the economics of sports.

According to University of Chicago sports economist Allen Sanderson, "There are only two things you do not want on a valuable piece of real estate. One is a cemetery, and the other is a football stadium."

The University of Denver Sports and Entertainment Law Journal had an article in their Spring 2011 issue entitled, "The Economic Impact of New Stadiums and Arenas on Cities." The report concluded, "Taxpayers usually do not get a positive return on their investment." Most of their research supports the following scenario: professional sports teams are never satisfied and want more out of a stadium, always wanting to have state of the art equipment, etc. If they are not satisfied, they threaten the city that they will leave unless their demands are met. The city must either spend more on the stadium and increase their debt or let the team leave and end up making cutbacks in other areas to pay their existing debt obligation.

Conclusion

There are many other risks that have already been mentioned in the public debate about the Stadium Plan. These include the additional cost for roads, police and infrastructure. There is also the risk that the Raiders will not come to Las Vegas, as well as the risk that the Raiders will come, but then break their lease before it ends. There is some precedent for this scenario.

The bottom line is that the current Stadium Plan is a bad deal for the public. NCG is not against a stadium per se. But, we must negotiate a better deal with more substantial community benefits to justify the level of risk and public investment.