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CITIES IN DENIAL: THE FALSE PROMISE OF SUBSIDIZED TOURIST AND ENTERTAINMENT COMPLEXES

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Mounting evidence from dozens of cities that rely on costly tourist-related infrastructure projects such as convention centers, stadiums, arenas, concert halls, and museums demonstrates that such projects contribute little to a community's economic vitality. Worse, they divert desperately needed financial resources from such basic government services as public safety, education, and transportation.

Because the vast majority of these new facilities are financed by tax-exempt borrowing, federal tax policy plays an important role in encouraging this sort of revitalization scheme. Indeed, the cost of the 40 professional sports facilities on the drawing boards or already underway could entail a federal tax subsidy of as much as $2.4 billion over the life of the tax-exempt bonds used to finance those projects. This controversial practice has led Senator Daniel Patrick Moynihan (D–NY) to introduce S. 1880, which would prohibit communities from issuing tax-exempt bonds to finance the construction of professional sports facilities.

To examine the impact of tourist and entertainment-related projects on urban revitalization, this paper contrasts three regional revitalization schemes currently being implemented in the greater Washington, D.C., metropolitan area. The major geographic jurisdictions in this metropolitan area operate under the laws and administration of separate governing bodies—the District of Columbia and the states of Virginia and Maryland. Thus, the Washington metropolitan area offers a unique social science experiment on the efficacy of alternative approaches to community governance and economic vitality.

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Maryland's Megaplex Mentality. Maryland, historically one of the more prosperous states, has pursued economic revitalization aggressively by investing in costly tourist and entertainment-related infrastructure projects. It has built or subsidized three stadiums and a variety of tourist facilities, including convention centers, over the past two decades and is contemplating several other major projects such as a racetrack.

In the 1980s, the state and the city of Baltimore assisted in the development of a world-renowned downtown retail, museum, and restaurant complex on Baltimore's Inner Harbor. Although its attractions are impressive and heavily used, they appear to have had no significant impact on the

city's or the state's economic well-being. Baltimore continues to lose residents, jobs, and businesses, and today houses its smallest population since about 1915.

Virginia's Approach. In contrast to Maryland's megaplex approach to economic development, Virginia focuses its financial resources and civic energy on providing better quality basic public services, including its substantial investment in higher education.

This approach already has netted substantial results. For example, five of Virginia's state-supported universities were ranked among the nation's top 25 public universities this year. No other state came close to its 20 percent share of top-rated institutions of higher education; Maryland saw only one of its state universities ranked in that select group.

In return for devoting a greater share of its resources to education and other quality public services, Virginia's economy has been booming while Maryland's remains stagnant. Over the 12 months ending in July 1998, Virginia created 196,000 new jobs; Maryland created just 13,400, with an unemployment rate of 4.7 percent compared with Virginia's 3.0 percent.

The District's Strategy. At the center of the Washington metropolitan area is the District of Columbia. It is administered by an elected city government with state and local responsibilities and financial resources and by the federal government, whose constitutional mandate to oversee the affairs of the nation's capital often leads Congress and the President to try the latest fads in urban revitalization.

The city—which is losing jobs and residents at a rapid pace because of high crime, high taxes, poor public services, and a dysfunctional school system—and its federal supporters most recently embraced a revitalization strategy that depends on massive investments in tourist and entertainment facilities. If pursued to the extent that many of its advocates desire, this strategy will involve the construction of a convention center, a baseball park, Olympic facilities, several museums, a new opera house, and a downtown trolley line targeted at tourists. The new convention center's total cost may run as high as $800 million, yet its projected economic impact promises an exceptionally poor return on the city's investment.

Projections produced by the convention center consultants and the cost estimates provided by the U.S. General Accounting Office indicate that each new full-time and part-time job created by the center in the city could cost as much as $450,000. Moreover, during the same period that the city pursued funds for this convention center, budgetary shortfalls and mismanagement forced substantial cutbacks in the city's only public university, the University of the District of Columbia, whose enrollment has fallen from 11,000 students in 1991 to 4,800 today.

Conclusion. Such infrastructure-dependent approaches to urban revitalization are being implemented across America, often with little effect but at great cost to communities in money, civic energy, and missed opportunities for meaningful reform. Even when such schemes have clearly failed, the only lesson learned seems to be that more money should be spent on second and third efforts. The evidence with respect to the three approaches to urban revitalization in the Washington metropolitan area suggests that, before policymakers commit to such entertainment-related infrastructure projects, they should evaluate both the wisdom of financing them with tax-exempt bonds and the impact of their decisions on urban revitalization.

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The popular perception about America's older cities is that their five-decade decline has reached bottom and they are now on the economic rebound, yet the facts indicate otherwise. Most older cities are still experiencing a loss of jobs and residents as businesses and families seek safer communities and functioning schools elsewhere. Eleven of the 12 top cities that lost population since 1970 saw those losses continue through the 1990s. Contributing to the exodus are urban crime rates that are higher than national averages and substantially higher than those of the surrounding suburbs, as well as public schools whose student performance scores consistently measure well below average.[1]

Although the success of the suburbs in attracting jobs, residents, commerce, and culture suggests that providing safe streets and good schools is the best way to reverse the exodus of jobs and residents from America's central cities, only a handful of cities have made any meaningful attempt to deal with these long-standing deficiencies. Instead, most of these struggling cities continue to bet their futures (and limited revenues) on costly infrastructure projects that focus on tourism and entertainment. In city after troubled city, convention centers, stadiums, arenas, opera houses, aquariums, museums, casinos, racetracks, and other places of entertainment are presented as powerful engines of economic development that will pay for themselves in new jobs, paychecks, and taxes. The mounting evidence suggests, however, that while such projects offer significant benefits to a very narrow slice of the regional (including suburban) business community, they offer very little to the urban community in general.

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The roots of today's urban "edifice complex" go back to the 1950s and the now-discredited federal urban renewal programs that were created to restore cities to some measure of economic health by replacing residential neighborhoods with projects of a commercial or public nature. Few, if any, of these programs were successful, but that has not stopped civic leaders from attempting to impose more modern versions of these costly schemes on their cities. Whereas the urban

1. For a comprehensive review, see Ronald D. Utt, "What to Do About the Cities," Heritage Foundation *Backgrounder* No. 1216, September 1, 1998.

renewal efforts of the 1950s and 1960s relied on the construction of office complexes, limited access highways, urban shopping galleries, and public housing, and the 1970s and 1980s version relied on rail-based transit systems, the efforts of the 1990s rely increasingly on tourism and entertainment facilities.

These projects seldom pay for themselves, either in rental fees or in additional taxes generated by the facilities; other broad-based taxes or state lotteries must be dedicated to covering their operating losses and annual debt service payments. State and city taxes on restaurant meals, hotel room rentals, and car rentals are common sources of tax revenues to fund these projects.

A significant source of financial support for these efforts is the U.S. Treasury (and, indirectly, the U.S. taxpayer), which provides a variety of subsidies to many of these local projects. The chief form of federal support is the privilege to issue bonds whose interest earnings are exempt from all federal taxes, as well as state taxes for investors who live in the state or community issuing the bonds. The cost in foregone tax revenues to the U.S. Treasury is estimated at $21 million for every $100 million in bonds issued. The privilege to issue such bonds has been controversial in Congress, and Senator Daniel Patrick Moynihan (D–NY) has introduced legislation (S. 1880) to prohibit communities from issuing tax-exempt bonds to finance the construction of professional sports facilities.

Other subsidies can include direct appropriations from Congress, as is the case with Washington's new convention center, which will receive federal money to upgrade a nearby Metro station and to relocate utilities at the construction site. Federal funding, such as money from the U.S. Department of Housing and Urban Development's Community Development Block Grants program and from the U.S. Department of Transportation, also can be used to help subsidize such facilities or related projects.

But because the vast majority of these projects are financed with tax-exempt borrowing, federal tax policy plays an important role in encouraging this type of urban revitalization scheme—and the federal taxpayer plays a part in subsidizing it. Indeed, the estimated $7 billion needed to construct the 40 professional sports facilities on the drawing boards or already underway in communities throughout the country could entail a federal tax subsidy of as much as $2.4 billion over the life of the tax-exempt bonds used to finance those projects.[2]

Targeted by promoters, many cash-strapped cities are induced to finance, in whole or in part, monumental entertainment-oriented infrastructure projects. A substantial body of evidence exists to show just how successful these urban revitalization schemes that depend on costly entertainment-oriented infrastructure projects have been. Much of that evidence suggests that publicly funded mega-entertainment centers make a rather unimpressive contribution to a community's economic vitality and employment opportunities.

A TALE OF TWO STATES AND ONE CITY

An instructive case study on the costs and benefits of different regional revitalization schemes can be found in the Washington, D.C., area, which offers as a type of social science experiment the experiences of citizens in a single metropolitan market governed by the administration and laws of three separate bodies—Maryland, Virginia, and the District of Columbia. These jurisdictions have reacted to the glamorous promises of entertainment promoters in markedly different ways in their quest for economic development, and each has achieved dramatically different results. Their contrasting experiences raise questions about (1) the value of an infrastructure-dependent revitalization strategy, compared with one that relies on

2. Joseph L. Bast, "Sports Stadium Madness: Why It Started, How to Stop It," *Policy Study* No. 85, The Heartland Institute, February 23, 1998, p. 1, and Dennis Zimmerman, "Tax Exempt Bonds and the Economics of Professional Sports Stadiums," Summary, *CRS Report for Congress* No. 96–460E, Congressional Research Service, May 29, 1996.

nothing more exotic than the provision of high quality services, and (2) the wisdom of a federal policy that encourages these projects.

Recently, the District of Columbia's government and business leaders formally committed to building a downtown baseball stadium, which may cost as much as $330 million; the city's Sports Commission announced it has hired an architectural firm to draw up the plans. The city also contributed $79 million to the newly completed MCI Center—home to Washington's professional basketball and hockey teams—and to building a new convention center, which could cost up to $800 million. The District's financial commitment to these three projects alone should exceed $1.2 billion, but could rise to as much as $2 billion if the city's offer to co-sponsor the 2012 Summer Olympics is accepted and if work on a proposed opera house ($200 million), a 7th and 9th Street trolley line, and proposed music and photography museums is initiated at city expense.

Such a financial commitment to an array of taxpayer-funded mega-entertainment projects demonstrates that Washington, D.C., has embraced a revitalization strategy whose implementation in other cash-strapped cities has left a checkered performance history. It is not too late to rethink Washington's costly approach by taking a closer look at just how meager the benefits have been in communities that have made massive investments in monuments to public entertainment. A good place to start is Baltimore, Maryland.

Baltimore: Still Suffering

Maryland's approach to urban revitalization was pushed to its extreme when the state and local governments decided to invest hundreds of millions of public dollars in a Potemkin Village of entertainment facilities located along the southern edge of the city called the Inner Harbor. The new Orioles Park at Camden Yards ($200 million) and Ravens stadium (over $300 million), as well as the government-subsidized Inner Harbor pavilions and the National Aquarium, offer charming distractions to tourists and visiting families from the suburbs, but they have contributed very little to the economic well-being of Baltimore or the shrinking number of residents. As *Washington Post* writer Rudolph Pyatt noted, "economic spinoffs from Orioles Park have yet to reach blighted communities just a few blocks away."[3]

Despite the promise of urban revitalization from these projects, the city of Baltimore is as troubled as ever. Its population has fallen by a quarter of a million people since 1960 and is now at its the lowest level since 1915. The city continues to lose an estimated 1,000 citizens per month[4] as businesses, workers, and residents leave for the suburbs or other communities that have invested public funds in quality schools and law enforcement rather than in costly infrastructure devoted to seasonally limited entertainment. Among America's major cities, only St. Louis and Washington, D.C., have lost greater shares of their populations over this decade.

As an analysis of the new Baltimore Ravens football stadium conducted by the State of Maryland shows, the stadium demonstrates particularly well the lackluster economic impact of major entertainment facilities on urban revitalization. An early consultants' report prepared for stadium boosters presented an optimistic scenario, partly assuming that a significant fraction of game attendees would rent a Baltimore hotel room on game night. Yet a subsequent analysis by Maryland's Economic Development Department concluded that the state's then-projected $177 million stadium investment would produce only 1,394 full-time jobs. This implies a staggering cost to taxpayers of $127,000 per job. A more recent study by the Maryland General Assembly's Office of Policy Analysis concludes that the new football stadium

3. Rudolph A. Pyatt, Jr., "Sports Moguls Strike Out With Virginia's Gov. Allen," *The Washington Post*, April 29, 1996. See also Jason Zengerle, "Up in Schmoke," *The New Republic*, August 10, 1998, pp. 19–23.

4. "Baltimore Voter Loss Cuts Clout in Capital," *The Washington Times*, August 25, 1998, p. C5.

would create only 889 jobs, amounting to a cost of $200,000 per job.[5]

Dennis Zimmerman, the Congressional Research Service's expert on stadium financing, puts this costly job-generating performance in perspective by noting in a recent report that another Maryland jobs program, the "Sunny Day Fund," cost the government $6,250 for each new job it created.[6]

Baltimore's poor return on the public's investment in sports stadiums is typical of the lackluster job-generating experience of such entertainment facilities. Robert Baade, professor of economics at Lake Forest College, studied 48 cities over a 30-year period. In the 32 cities that experienced a change in the number of sports teams, 30 saw no change in per capita income, one improved, and one worsened. Of 30 cities experiencing a change in the number of stadiums or arenas, 27 showed no influence on income, but three experienced significant negative effects.[7] A more recent study published by the Brookings Institution in Washington, D.C., echoed these findings. It concluded that "A new sports facility has an extremely small (perhaps even negative) effect on overall economic activity and employment."[8]

In explaining his findings, Professor Baade concluded:

> Upon some reflection, sport's slow growth pattern should not be surprising. The slower growth reflects the kind of economic activity that investments in professional sports spawn. Sports diverts economic development toward labor-intensive, relatively unskilled (low-wage), part-time jobs. Other cities in the region that invest in economic activity that promotes full-time, non-seasonal, and high wage jobs can be expected to capture a greater share of the regional economic pie.[9]

Different Strategies. A comparison of the approaches of cities and counties in Virginia and Maryland may serve to illustrate the difference in results between alternative approaches to economic development uncovered by Professor Baade.

Virginia has no major league subsidized sports facilities, other than those at its state-supported colleges and universities. Further, the state's focus on technology and ordinary but financially self-sufficient commerce, rather than on subsidized adult entertainment, is fostering a statewide boom in high-paying technology-related jobs, as well as substantial *private* investment in resort and entertainment complexes.

In contrast, Prince George's County, Maryland, a close-in suburb of Washington, D.C., served as home to two professional sports teams and their arena for 25 years until the teams' relocation to the District of Columbia in 1998. But their presence appears to have contributed little to the economic well-being of that county. In 1970, Prince George's County's per capita personal income was equal to 82 percent of that of Fairfax County, Virginia, another Washington suburb; by 1990, its per capita income was only 70 percent of Fairfax County's.[10]

Good schools and low crime, not proximity to professional sports venues, determine where busi-

5. Charles Babington, "Stadium's Benefits Overrated, Study Says," *The Washington Post*, June 19, 1998, p. D1. With the expected cost of the stadium still rising, these cost-per-job estimates will rise as well.
6. Zimmerman, "Tax Exempt Bonds and the Economics of Professional Sports Stadiums."
7. Robert A. Baade, "Stadiums, Professional Sports and Economic Development: Assessing the Reality," *Policy Study* No. 62, The Heartland Institute, April 4, 1994.
8. Roger G. Noll and Andrew Zimbalist, "Sports, Jobs and Taxes," *The Brookings Review*, Summer 1997, p. 35.
9. Robert A. Baade, Statement to the Subcommittee on Antitrust, Business Rights, and Competition, Senate Committee on the Judiciary, November 29, 1995, reprinted in "Should Congress Stop the Bidding War for Sports Franchises," *Heartland Policy Study, www.heartland.org/stadps4.htm.*

nesses locate and expand and where prosperous families choose to live. Yet Prince George's County, whose schools are ranked the second worst in Maryland (Baltimore City's were the worst), provided $70 million in infrastructure support to the privately funded Jack Kent Cooke Stadium, new home of the Washington Redskins professional football team.

Perhaps Art Modell, owner of the Baltimore Ravens football team, was voicing the philosophy and priorities of many of Maryland's civic leaders and elected officials when he observed that "The pride and presence of a professional football team is far more important than thirty libraries, and I say that with all due respect to the learning process."[11]

Washington's "Field of Dreams" Strategy

The District of Columbia is administered by an elected city government with both state and local responsibilities and resources and by the federal government, whose constitutional mandate to oversee the affairs of the nation's capital city often has led Congress and the President to view it as ground zero for the latest initiative in urban revitalization. The substantial body of evidence demonstrating that professional sports facilities and other structures dedicated to entertainment lead to little or no meaningful economic improvement has not influenced the District of Columbia. With the support and urging of its congressionally created Financial Control Board, the U.S. Office of Management and Budget, and many in Congress, the District may soon spend hundreds of millions of dollars on entertainment facilities that it can ill afford. The city's commitment to this approach is evident, for example, in the recent formation of the not-for-profit Washington Center Alliance, which hopes to jump start the city's economy by encouraging the construction of music and photography museums and a baseball park.

In addition, last year, the federal government funded improvements in the mass transit Metro system to facilitate access to the MCI Center and proposed creating and funding a development bank to help finance the convention center and other infrastructure projects. This year, it agreed to fund improvements in the Metro station that will serve the prospective convention center. Heralded as an investment that would help the District's downtown economy, the MCI arena seems to be having only a modest impact on the surrounding neighborhood through a somewhat higher restaurant business. Whatever its impact, it has not been sufficient to offset a city-wide loss of 7,700 jobs in the 12 months ending in March 1998, when the city's unemployment rate reached 9.1 percent—the highest for the month of March in 15 years.[12]

Low benefits for high costs are not limited to stadiums and arenas; they also characterize the economic impact of most convention centers.[13] As a key component of its revitalization strategy, the District government intends to construct a new convention center in the close-in Mt. Vernon Square residential neighborhood at a cost (excluding the land) that the U.S. General Accounting Office estimates will be at least $800 million. Debt service, operating losses, and foregone property taxes will require as much as $60 million per year in subsidies.

Proponents of the center claim that its impact on tourism will contribute to inner-city revitalization—an outcome not necessarily supported by data in a recent consultants' report. Indeed, the 1997 Coopers & Lybrand study for the Washington Convention Center Authority reveals some rather troubling estimates of just how meager a return the city will get on its investment. Although

10. U.S. Bureau of the Census, *City and County Data Book* for the years 1972, 1977, 1983, 1988, and 1994.

11. Quoted in remarks by Senator Daniel Patrick Moynihan (D–NY) in *Congressional Record*, Vol. 43, No. 4 (January 21, 1997), p. S499.

12. Rudolph A. Pyatt, Jr., "Help Wanted in Washington—for a Failing Job Market," *The Washington Post*, May 18, 1998, p. 4.

13. See Heywood T. Sanders, "Convention Center Follies," *The Public Interest*, No. 132 (Summer 1998), p. 58.

much has been made of the report's estimates of the regional sales the center may generate, these projections are derived from generic spending multipliers that make rough guesses about the economic impact of a new center. Such analysis assumes, for example, that $1.00 spent by a conventioneer on a D.C. hotel room will yield a total of $1.40 in city spending by the time the dollar is re-spent again and again by hotel employees, suppliers, investors, and so on.

When such multipliers are applied to all the kinds of spending that conventioneers are likely to make, the results are, by themselves, sufficiently impressive.[14] But the important question that is seldom asked in these studies—and certainly not in the Coopers & Lybrand study—is how the returns from this investment would compare with alternative uses of the $800 million up-front investment, the $60 million annual tax subsidy, and the well-located city land on which the center is to be built. What economic benefits would flow to the city, for instance, if this sum were used for a tax cut, or for public school improvements, or a new university,[15] or the world's largest indoor water slide park with live palm trees and monkeys? Nobody knows, because such considerations were not part of the consultants' evaluation.

The consultants did, however, provide enough other specific information to suggest that, on the whole, this convention center project would provide a mediocre return to the city. In the report's appendix, the consultants estimate that the new convention center will have its primary economic impact by initially producing 176,000 net new, or incremental, hotel room night rentals per year in the Washington, D.C., area, which could rise to 200,000 in the future.[16] In a city that is on track to hosting as much as 25 million tourists in 1998, this represents an increase in visitors of less than 1.0 percent—a rather marginal return for an $800 million investment.

The report also estimates that the new convention center will create between 4,380 and 9,100 net new full-time and part-time jobs in the metropolitan area, but only 1,670 to 3,860 jobs within the District of Columbia proper. Although no estimate is provided on how this total will be divided between full- and part-time jobs, most of these jobs will be in the hotel and restaurant sectors of the regional economy—areas of employment that typically pay below-average wages, according to data compiled by the U.S. Bureau of Labor Statistics.[17]

Table 1 B 1223

Average Hourly Earnings, May 1998
Non-Supervisory Employees by Trade

	Hourly Wage
Computers and Data Processing	$20.93
Construction	16.43
Transportation	15.21
Finance, Insurance, Real Estate	13.98
Wholesale	13.94
Health Services	13.65
All Trades, Average	12.69
Auto Repair	11.02
Hotels and Lodging	8.93
Retail	8.71
Eating and Drinking	6.31

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings,* Table B-15, "Average Hours and Earnings," Establishment Data, May 1998.

To understand the impact, consider the hourly wages in a number of trades that would be found

14. Coopers & Lybrand L.L.P., *Analysis for the Proposed Washington Convention Center,* December 30, 1997, p. 75.

15. The city-owned site slated for the convention center had been set aside for a new downtown campus for the city's University of District of Columbia. Prior to that, it was a residential neighborhood of houses and some stores, but the residents had been evicted and the houses torn down as part of an uncompleted urban renewal project.

16. "Washington Hotel Market Analysis," p. 25, in Coopers & Lybrand, *Analysis for the Proposed Washington Convention Center.*

17. U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, Table B-15, "Average Hours and Earnings," Establishment Data, May 1998.

commonly in most communities. As Table 1 illustrates, the types of jobs typically created by a convention center or other entertainment-oriented project tend to be below the average of all trades—as much as 50 percent below for food service, and substantially below other types of jobs suitable for an urban environment. Even with the report's high-end estimate of 3,860 new jobs in the District, under the best of circumstances the District will be investing $207,253 of scarce community financial resources for each new low-wage job created by the new convention center.

According to Heywood Sanders of Trinity University, a leading expert on convention centers, assuming (1) that the convention center probably will require an annual tax subsidy of about $60 million per year to cover the expected operating losses and service debt, and (2) that every one of the net new room rentals will occur within the District, then District taxpayers will pay $340 in subsidies to induce conventioneers to spend about $140 per night on a D.C. hotel room. However, the consultants' report projects that about half of the economic impact of the center will occur in the District's surrounding jurisdictions, which will not be taxed to support the convention center. The subsidy per hotel room rented, then, could double to $680 if half of the attendees take a suburban hotel room in Maryland or Virginia.

The city could get the same economic kick at half the cost simply by offering free hotel rooms to a random collection of 176,000 prospective tourists who agree to spend at least one night in the city and buy their own meals, taxi rides, and mementos. Added benefits of this less costly alternative would be the preservation of the residential integrity of the Shaw neighborhood and the opportunity to re-deploy the now-vacant Mt. Vernon Square site for more productive use—such as unsubsidized residential housing for workers who shop in the city's stores and pay sales, income, and property taxes throughout the year.

Indeed, if the District improved basic public services to a level of quality sufficient to re-attract just the 86,000 citizens who moved to the suburbs since 1990, approximately $3.1 billion in new spending would be added to the city's economy. This is far more than the $400 million the convention center is expected to add each year to the entire metropolitan area, including the suburbs in Maryland and Virginia.

Now the city's "edifice boosters" are chasing after other entertainment monuments: a new baseball stadium and the right to host, and pay for, the 2012 Summer Olympics. Although little analytic information is available on the economic benefits of hosting the Olympics, it is worth noting that shortly after the 1996 Olympics in Atlanta, an *Atlanta Business Chronicle* editorial on "Why the Olympics Hurt Business" began by asking:

> So were we duped by Olympic Organizers? Or is it still too early to tell?... [T]he first days of the Olympics have left the Atlanta business community wondering where to place the blame for what has been an economic disaster for some.[18]

It seems that the traffic congestion problems chased away Atlanta's normal day-to-day customers and replaced them with cash-strapped tourists on fast-food budgets.

Although there is no assurance that a major league baseball team could be acquired for the proposed D.C. baseball park, such technicalities often do not stop fervent civic boosters from taxing and building. For example, in Oklahoma City the recently built but never occupied NHL/NBA-scale arena stands as testament to how hot that fervor can glow.[19] And in several northeastern states, five cities spent $110 million of public money to construct baseball parks to field teams in a newly formed minor league that, as of a month before the

18. David Rubinger, "Why the Olympics Hurt Business," *Atlanta Business Chronicle*, July 29, 1996.

19. "From Tragedy, a New Growth?" *The Economist*, May 2, 1998, p. 24.

scheduled opening of the season, existed only on paper.[20]

Even though it has been 27 years since a major league baseball team has changed cities, D.C.'s baseball boosters argue that the city could be the back-up site for a group of Northern Virginia investors who are thought to be near the front of the line of those hoping to acquire an expansion or relocated team. To date, these investors have not had much luck getting Virginians to agree to pay for the ballpark or allow it in their neighborhoods. Virginians simply do not believe that a $300 million, taxpayer-subsidized stadium will spur economic development.

Virginia's Back-to-Basics Strategy

In contrast to citizens in Maryland and the District, Virginians' skeptical attitude toward the economic benefits of costly infrastructure projects whose use is limited to seasonal adult entertainment is unusual. Despite the occasional seduction of state officials, they successfully resisted efforts by the Walt Disney Corporation, the Washington Redskins football team, and a group of investors who want a baseball team to entice them to agree to build costly accommodations for their entertainment businesses.

To date, the state remains free of subsidized major league sports facilities. The rejected suitors accused Virginians of a selfish "NIMBY" (Not In My Back Yard) attitude toward development, yet Virginia is awash in the new construction of factories, office buildings, shopping centers, campus buildings, golf courses, privately financed conference centers, and other major projects that promise high-paying, year-round, full-time jobs. The offer to create part-time, low wage, vendor-type jobs typical of subsidized entertainment complexes simply is not attractive to citizens of Virginia.

At the once-empty railroad yard in suburban Alexandria, Virginia, where the late Jack Kent Cooke and former Governor L. Douglas Wilder tried to put a new state-subsidized football stadium for the Washington Redskins, there now stands a major, privately financed shopping center. It provides convenient retail services to an entire community, hundreds of full- and part-time jobs, and a healthy flow of sales, income, and property tax revenues to fund the community's basic public services. (Mr. Cooke finally built Redskin Park in Prince George's County, Maryland, with taxpayer-subsidized roads and infrastructure.)

The state's focus on providing quality higher education and maintaining an attractive environment both for residents and for a diverse mix of commercial enterprises is paying off. In July 1998, Virginia's unemployment rate stood at 3.0 percent, and the state's economy had created 196,600 jobs over the previous 12 months. By contrast, Maryland's July 1998 unemployment rate was 4.7 percent, and the state had created only 13,400 jobs over the same 12-month period. Meanwhile, in the District of Columbia, the unemployment rate was 8.3 percent, and job growth had turned positive (thanks largely to a nationwide boom in tourism) after shrinking during the first three months of the year. In the 12 months ending in July 1998, the District of Columbia created 4,900 jobs.[21]

Table 2 B 1223

How Virginia, Maryland, and the District of Columbia Compare in Job Creation, July 1997 – July 1998

	Jobs Created	Unemployment Rate
Virginia	196,600	3.0%
Maryland	13,400	4.7
D.C.	4,900	8.3

Source: U.S. Bureau of Labor Statistics website, *http://www.bls.gov*, August 24, 1998.

By encouraging the creation of new sources of tax revenue rather than users of subsidies, Virginia

20. Kirk Johnson, "Play Ball! Now Where Are All the Teams?" *The New York Times*, April 10, 1998, p. A1. The league was organized as planned, and the minor league teams now play in the ballparks.

21. On the U.S. Bureau of Labor Statistics website, *www.bls.gov*, as of August 24, 1998.

has ample financial resources and the borrowing capacity to fund the construction of new engineering, law, and science schools at its state universities, and to pay higher-than-average salaries to its professors. These combine to attract top scholars and students to its state-supported schools. When adjusted for regional differences in the cost of living, the annual salaries of full professors at the University of Virginia ($87,164), Virginia Tech ($74,733), and Virginia Commonwealth ($69,625) exceed by a significant margin the $62,450 earned by full professors at Maryland's flagship public university, the University of Maryland at College Park.[22]

As a result, these and other investments in quality education mean that 20,800 Virginia undergraduates attend public universities rated by *Barron's Profiles of American Colleges*[23] as "most" or "highly" competitive, compared with just 1,500 such students in Maryland. In addition, in August 1998, five of Virginia's public universities were included in *Kiplinger's* 1998 list of the nation's top 25 public universities and colleges.[24] Maryland placed just one. Virginia's focus on higher education also allows it to surpass Maryland in the proportion of undergraduate students that can be accommodated in its state schools: Although Virginia's population exceeds Maryland's by 32 percent, Virginia enrolls 74 percent more undergraduates in its four-year state universities and colleges.[25]

In the District of Columbia, which intends to divert tens of millions in annual tax revenues to subsidize a convention center, the University of the District of Columbia received the lowest qualitative rating ("non-competitive," according to *Barron's Profiles*) and has an undergraduate student body that has declined from 11,000 students in 1991 to 4,800 today because of budget cuts and mismanagement.[26]

HOW CONGRESS FEEDS THE BUILDING FRENZY

Virtually all publicly funded convention centers, stadiums, arenas, and other infrastructure projects are financed with debt instruments that are exempt from federal income taxes, and often from state income taxes if the investor resides in the state that issued the bonds. Allowing investors in these bonds to earn interest income that is exempt from federal income taxes enables the municipalities to borrow at lower interest rates.

By permitting communities to use tax-exempt financing for "public purpose" investments in this manner, the federal government, in effect, provides a subsidy to the municipal bond issuer that is equal to the federal income taxes that otherwise would have been paid if the investor, say, owned taxable bonds. As subsidies go, the federal tax exemption on municipal debt is one of the most inefficient because the loss in federal income tax revenues is generally higher than the interest rate savings to the municipality provided by the tax-exempt status.

For a 30-year tax-exempt bond carrying an interest rate that is two percentage points below a comparable taxable bond rate, the present value of the federal tax subsidy over the life of the bond is equal to approximately 21 percent of the principal borrowed—or $21 million for every $100 million of tax-exempt bonds issued. For a typical $250 million ballpark being constructed in many cities, this federal subsidy is worth about $52.5 million, and for the Washington Convention Center, the

22. Jon Sanders, "Compensation of Campus Faculty: How Virginia Compares Within the Region," A Study Commissioned by The Thomas Jefferson Institute for Public Policy, Fairfax Station, Virginia, January 1998, p. 30.

23. *Barron's Profiles of American Colleges*, 1998 Edition (Hauppauge, N.Y.: Barron's Educational Series, Inc., 1997).

24. "Lower-Cost Higher Ed," *Free Lance- Star*, Fredericksburg, Va., August 23, 1998, p. A6.

25. Enrollment data from *Barron's Profiles of American Colleges.*

26. Valerie Strauss, "UDC Progress," *The Washington Post*, March 25, 1998, p. A16.

present value of the federal tax subsidy could equal $110 million over the life of the bonds.[27]

Recognizing that the high costs and subsidies of stadiums did not compare favorably to the benefits they provide, compared with such other public investments as schools, roads, and hospitals, Congress in 1986 enacted legislation that eliminated the ability of communities and sports team owners to use tax-exempt financing to build stadiums. Specifically, the Tax Reform Act of 1986 prohibits the use of "private activity" tax-exempt bonds to finance sports facilities, because the expanding use of such bonds for that purpose was crowding out bonds for other public purposes, providing greater tax loopholes for the rich, and reducing federal tax revenues.

Unfortunately, this attempted legislative remedy backfired badly. Tax lawyers discovered that stadiums could still use tax-exempt financing under another provision of the U.S. tax code as long as no more than 10 percent of the funds used for debt service was derived from the rental of the stadium—thereby requiring that 90 percent of the funds be derived from city and state taxes, or other non-rental fees.

Ironically, the use of this alternative provision of the tax code bestowed even greater benefits on sports team owners than the provision Congress had rescinded. Under the former "private activity" provision, rent and other revenues derived from a stadium could be used to pay the interest and principal on the bonds used to finance a stadium. Communities had an incentive to offer stadiums to team owners at rent levels that would at least cover the debt service costs on the tax-exempt bonds. But under the alternative provision of the tax code that authorizes state and local governments to issue tax-exempt bonds for *public* purposes, these bonds are exempt from taxes only if no more than 10 percent of the debt service is derived from stadium revenue sources. As a consequence, communities using such bonds to finance a stadium or ballpark must find alternative sources of tax revenues to service the debt, since much of the rent that would be collected could not be used to pay interest and principal on the bonds.

Although the purpose of this requirement was to ensure that only *bona fide* public facilities would be eligible for the federal subsidy, in practice it has induced communities to sign sweetheart deals with sports team owners, because any direct rents derived from the stadium could not exceed 10 percent of debt service.[28] In effect, under current federal law, had the state of Maryland cut a tougher deal with Ravens owner Art Modell for higher rent and revenue shares, it might not have been able to use tax-exempt financing to build the stadium. As a consequence of this perverse interpretation of the law, communities building sports stadiums must use tax revenues from broad-based taxes—such as a hotel or restaurant tax or an add-on to the sales tax—to pay off the loan for the stadium. Because such taxes are paid by everybody, and in most communities are part of general revenues to be used for such services as schools and law enforcement, the misuse of the federal tax code ensures that stadiums will continue, as Modell observed, to take precedence over libraries in many communities.

Senator Daniel Moynihan's legislation (S. 1880) would end this perverse misuse of the law by classifying bonds issued to finance professional sports facilities as "private activity" bonds, thereby making them ineligible for tax-exempt privileges. Sports team owners would have to finance the construction of their own facilities, as is still done in some communities, and this in turn would allow local officials to focus on effective urban revitalization strategies and free millions of dollars in prospective public funds that could be redirected to legitimate public purposes or tax relief.

27. See Dennis Zimmerman, "Local and Federal Subsidy of Sports Stadiums: Who Benefits, Who Pays?" in *Sports, Jobs and Taxes; The Economic Impact of Sports Teams and Stadiums*, The Brookings Institution, Washington, D.C., 1998, for an explanation of how the subsidy is calculated and what factors will raise or lower the estimate.

28. Although stadium rentals cannot be applied to debt service, fees earned from such ancillary services as pouring rights, naming rights, and seat licenses represent revenues eligible for servicing tax exempt securities.

CONCLUSION

The question of whether to subsidize a professional sports facility is a contentious one wherever raised, and in many cases the community, through referendum or the decision of elected officials, chooses to go forward with full or partial public support for the facility. Unlike other forms of entertainment, professional sports franchises create powerful emotional bonds within the community that elevate the aura of a team to "public good" and enable easier access to public funds.

If a community's democratically determined priorities endorse such spending, then few can argue with it. But advocates of subsidized sports, convention centers, and other forms of public entertainment should be honest about what is at stake and should not entice the public to believe they are supporting broad-based economic development that will contribute heavily to a city's economy. At the same time, elected officials in declining cities, however desperate they may be for new investment in their communities, must realize that the revitalization boost from such projects is negligible and that community resources and civic energy would be better directed to more productive activities.

As the record from around the country indicates, the economic boost from public investment in entertainment complexes is exceptionally modest at best, and counterproductive at worst. It diverts scarce resources and public attention from the less glamorous activities that make more meaningful contributions to the public's well-being.

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