

The title is centered within a light blue oval. The background of the oval is a photograph of a football field, showing the green grass, white yard lines, and the number '30' on the field. A red football is positioned on the yard line.

## The NFL's Latest Battles: Stadium Subsidies and the End of the Building Boom?

by Audrey D. Kline

The recent proposal to overhaul the U.S. Tax code includes removal of federal tax-exempt status for municipal bonds. The exemption began in 1986 to encourage investment in expanding or repairing infrastructure such as roads, schools, and sewer systems. Increasingly, however, the use of municipal bonds has become a funding source for sport stadium construction around the country. A recent study, “Tax – Exempt Municipal Bonds and the Financing of Professional Sports Stadiums” by Gayer, Drukker and Gold (2016, Brookings Institute), notes that over 75 percent of new stadium construction for professional sports across the NFL, NBA, NHL, and MLB since 2000 was done at least in part with the aid of tax-exempt municipal bonds, resulting in lost tax revenue of \$3.7 billion.

Given the financial assistance provided by municipal bonds, it's no surprise that the NFL has publicly stated its [opposition](#) to the current tax proposal being promoted by the U.S. House of Representatives, which would remove the loophole that currently allows the use of municipal bonds for stadium construction. While some will attribute the removal of the subsidy as political retribution given President Trump's displeasure with the NFL's stance on team members protesting during the national anthem, President Obama also called for the end of the municipal bond “subsidy”. In fact, as Gayer, Druker and Gold note (2006, p. 3), the use of municipal bonds for stadium construction was supposed to end with the Tax Reform Act of 1986.

As reported by Andrew Beaton in *The Wall Street Journal* on November 2, 2017 NFL owners contend that stadium construction provides benefits for communities in the form of ongoing economic growth and development. (The construction of a manufacturing plant might promote more economic growth and

development.) The reality is that most professional sports organizations have the financial ability to fund their own stadium construction, but why do that when a public subsidy is available? Municipal bond holders also benefit because the interest on the bonds is tax-exempt. As long as over [90 percent](#) of the stadium is financed using municipal bonds, the bonds are tax exempt just as if the bonds were being used to fund infrastructure development such as road construction.

The reality of economic growth and development as an outgrowth of stadium construction is questionable. Studies have shown that the stadium construction has both had [negative](#) effects or, at best, a neutral economic impact on their communities. Economist Roger Noll believes that generally the impact is at best neutral. He does note, however, that arenas tend to have better bang for the buck for local communities, since they tend to be multi-purpose facilities and get used more than single purpose stadiums (Parker, July 30, 2015, *Stanford News* <https://news.stanford.edu/2015/07/30/stadium-economics-noll-073015/>).

One of the main fallacies in promoting the economic growth justification for local assistance with stadium funding is that in reality, beyond the tax breaks, consumers are often simply shifting where they spend their entertainment dollars. As such, there are winners and losers. Other entertainment options in the local area might find that there is a decrease in the demand for their goods and services when a new stadium is constructed. Some people will shift toward the sports venue, increasing attendance to sporting events, concerts, and other events that might be held at the new venue while decreasing attendance at the movie theater, restaurants away from the stadium, local amusement parks, and so on. As Noll notes, the more a stadium can serve as a component of a multi-use development, the more likely it would be to receive support if municipal bonds were to continue. Even without the tax repeal, communities are recognizing that the economic benefits of a single purpose facility like a football stadium is highly costly due to the minimal use of the facility.

The NFL has received favorable tax treatment since the 1960s, when it was granted not-for-profit status, being classified as a trade organization. This tax benefit was voluntarily surrendered in 2015, but the stadium construction benefit remains for the moment. Any change in tax law would only apply to future projects, not those currently in progress. There is bipartisan support for repealing the tax break from municipal bonds. Of course, NFL owners stand to benefit from other aspects of the proposed tax reform, including the proposed elimination of the estate tax (*Forbes*, Badenhausen, *Forbes*, October 30, 2017 <https://www.forbes.com/sites/kurtbadenhausen/2017/10/30/while-trump-attacks-nfl-league-owners-would-be-huge-beneficiaries-of-his-tax-plan/#f2056fb66ed4>).

As the NFL continues to face [declining advertising](#) revenue and lower ratings from disgruntled fans as a result of the national anthem protests, the NFL owners might find their sway on public policy is diminished as well. The [NFL maintains](#) it has not faced declines in advertising revenue and notes that the

decline in ratings is likely a result of more football games being broadcast on multiple days of the week, there could be a perfect storm of sorts for repealing the tax loophole. Whether or not elimination of the ability to use bonds puts some sports franchises at a competitive disadvantage if they hadn't already engaged in stadium construction relative to its counterparts that have new stadiums remains to be seen.

One thing is likely to occur in the near term--NFL owners will probably be more anxious to court politicians in the coming months, inviting politicians to games to try to win them over for favorable tax treatment and put the national anthem flap behind them. Quickly following news of the proposed change in tax law related to municipal bonds, NFL commissioner [Roger Goodell](#) went on record trying to do just that with the national anthem protests, indicating the NFL's support for the national anthem and the need to move forward. It will be interesting to watch over the coming months to see where tax reform ends up and whether the NFL (and other professional sports organizations) can sway politicians to retain the municipal bond tax exemption.

