Written by **Bob Adelmann** on September 8, 2010

NFL Means No Free Lunch for Taxpayers

According to the *New York Times*, “New Jerseyans are hardly alone in paying for stadiums that no longer exist. Residents of Seattle’s King County owe more than $80 million for the Kingdome, which was razed in 2000. The story is similar in Indianapolis and Philadelphia.”

In fact, all but a few of the NFL’s football stadiums are financed with taxpayer money, despite the fact that several of the teams for whom the stadiums were built have moved away. Houston’s Astrodome, built in 1965 for $27 million, still has $32 million in bonds outstanding, and the Civic Arena in Pittsburgh, built in 1961 remains $10 million in the hole.

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Back in the ‘60s, public works were usually defined as bridges, roads, sewers — basic infrastructure that was used by everyone and unlikely to be built by the private sector. At the time, most teams built their own stadiums. But then politicians, team owners and other businessmen looking to profit from government financing began to push for athletic stadiums in order to attract teams not only to gain publicity for the city but to help pay for the complexes. New York built Shea Stadium for the Mets, Atlanta put up Fulton County Stadium to draw the Braves from Milwaukee, and Oakland was able to entice the Athletics to move from Kansas City with their new stadium.

The *Times* pointed out that “economists almost uniformly agree that publicly financed stadiums rarely pay for themselves. As Andrew Moylan, director of government affairs at the National Taxpayers Union, said, “Stadiums are sold as enormous draws for events, but the economics are clear that they aren’t helping. It’s [just] another way to add insult to injury for taxpayers.” This was confirmed by economist J. C. Bradbury, who said, “There’s a huge consensus among economists that there is no economic development benefit to these stadiums.”

And so, when new Governor Chris Christie of New Jersey was asked about how his state, suffering greatly from revenue shortfalls in the recession, was going to cover the payments due, he said: “Believe me, I’m not unaware of the debt situation that was left here in my lap by decisions made by previous administrations. But we’re just going to have to deal with it.”

The question is: *how*. As Steven Malanga pointed out in the Summer 2010 issue of *City Journal*, the New Jersey Sports and Exposition Authority (NJSEA), which issued $300 million in bonds to build the original sports complex back in 1976, expected profits from a race track which was part of the complex to pay off those bonds. And for a while, it seemed to work well. In fact, in the first ten years of operation, profits from the complex more than covered debt service and generated an additional $60 million in profits for the state. That, according to Malanga, was just too much for the politicians to resist.

> They siphoned track proceeds into the state budget, repeatedly refinanced the NJSEA's bonds, push[ed] repayment dates far into the future, and relied on the authority's good credit rating to launch other building schemes, including a costly but unsuccessful aquarium in Camden. Today, 35 years after its first bonds, the NJSEA is $830 million in hock. Worse, it can't repay that debt because business has cratered at the racetrack…The state … has had to assume the authority's interest payments … on bonds that now stretch out to nearly 2030.

Malanga offered several suggestions for Governor Christie (and other governors in the same boat), including abolishing the federal-tax-exempt status of the municipal bonds used to do the financing. He reminded his readers that the Build America Bonds program signed into law by President Obama in February 2009 causes a "misallocation of resources that results from municipal debt's favored status."

He also recommended eliminating independent authorities such as NJSEA from being able to issue its own debt without approval by taxpayers. Another suggestion was to limit what he calls "debt-related fiscal maneuvers." This would mean eliminating the use of sophisticated investment vehicles like swaps, which few politicians understand. In recent years, some municipalities tried to insure their bonds against rising interest rates. When interest rates dropped precipitously in the recession, many governments were on the hook for huge payouts.

But Malanga is not optimistic about these measures being enacted swiftly enough to make a difference. He wrote that "The squeeze is already forcing cities and states to cut basic services, since they can't risk defaulting on their debt." It may already be too late. Rick Bookstaber, a senior policy advisor to the Securities and Exchange Commission, observed that the municipal bond market "has all the characteristics … for a crisis that might unfold like the home-foreclosure mess: a few municipalities could declare bankruptcy, decline to honor their debts, and unleash 'a widespread cascade in defaults.' "

Trying to be helpful, Malanga said that municipal bond defaults are rare, with the last one being Cleveland, Ohio, in 1978. But then he added that there were 4,500 defaults by state and local governments in the '30s during the Great Depression.

Free-market economist Milton Friedman wrote a column for *Newsweek* magazine in 1975, "There's No Such Thing as a Free Lunch." He pointed out repeatedly that attempts to get a free ride on someone else's nickel eventually backfire. Football fans: Enjoy the game. Taxpayers: Not so much.

Photo: New York Giants' Corey Webster and Kevin Boss pose on the field at the new Meadowlands football Stadium, Dec. 8, 2009 in East Rutherford, New Jersey: AP Images