



Written by [Bob Adelman](#) on July 21, 2014

## Taxpayers On the Hook for New 49ers Stadium in Santa Clara

Last Thursday every politician, every bigwig, every banker, every individual with any interest whatsoever in the new Levi's Stadium in Santa Clara, California, [showed up for the invitation-only celebration](#) of its grand opening. The beer was flowing, the confetti was flying, and self-congratulatory exuberance was on every lip.



Present were Santa Clara Mayor Jamie Matthews, San Francisco 49ers CEO Jed York, John York (Jed's father and co-chairman of the team), 49ers president Paraag Marathe, NFL Commissioner Roger Goodell, 49ers coach Jim Harbaugh, and some of his star players including Patrick Willis and Joe Staley. In the background were executives from Levi Strauss, who paid big bucks to name the stadium.

The only people not in the audience were the ordinary taxpayers, who could find themselves on the short end of one of the most massive financial disasters in modern history.

In a toast to the fans who are expected to fill the 70,000-seat extravaganza starting with preseason games in early August, Jed York said, "You deserve to have the best stadium in the world. And now you have it!" 49ers president Marathe added, "You can feel the difference [here] and you know the fans are going to feel the difference."

At one point in the ceremony, noted Mike Rosenberg, a writer for the *San Jose Mercury News* who attended the affair,

Hundreds of workers wearing white "I built Levi's Stadium" shirts and hard hats marched down two red-carpeted giant staircases. Thousands of white, red and gold pieces of confetti burst into the air at the end of the event, as dozens of cheerleaders waved their pom-poms and guests rushed to take selfies in front of a giant screen on stage.

The deal has been in the works for years, with initial plans to demolish Candlestick Park and replace it with an updated version in its parking lot. Financial squabbles and traffic glitches finally deep-sixed those plans, and in 2006 the team's new owners announced they were moving 40 miles south to the tiny berg of Santa Clara, home of the 49ers' administration offices.

Negotiations with the city council began in earnest the next year, with promises that no new taxes would be needed and that the huge stadium would bring in additional revenues without liability. Free money, in other words.

On June 8, 2010 Measure J was passed, with 15,000 voters in favor and 10,000 against. Those voting for



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it were persuaded by the language in the ballot which said, in part:

No use of City General or Enterprise funds for construction; no new taxes for residents for stadium; private party pays all construction cost overruns; no City/Agency obligation for stadium operation/maintenance.

Within a year that ballot language had already been breached: Twelve percent of the cost of the \$1.3 billion stadium was provided by the city, with another \$330 million to be borrowed by the city's Stadium Authority. Goldman Sachs headed up a consortium of banks that provided some \$850 million in construction financing (with Goldman taking its usual 10-percent fee) while Levi Strauss ponied up another \$200 million to be paid out over the next 10 years. The NFL itself loaned the Stadium Authority \$200 million to help out, expecting to be paid back out of gate revenues, seat leases, trinket and beer sales, and so on.

The assumptions underlying the project are mind-boggling: First, it is assumed that the 49ers will continue to have a winning team for as far as the eye can see into the future, drawing fans from not only San Francisco but also other cities within a 100-mile radius of the stadium. That expectation, however, is already flawed, as more than 30 percent of those loyal fans in San Francisco holding season tickets have given them up, as the 40-mile drive each way and the potential traffic jams on game day were just too daunting.

Second, the interest rate on the financing is short-term, and most of the loans will have to be refinanced no later than 2015. Even a small uptick in short-term interest rates could put debt service requirements out of reach of the authority.

Third, the cost of subsidies negotiated to bring the 49ers to Santa Clara haven't been measured but include the NFL's requirement that all revenue from its events "be exempt from sales, amusement or entertainment taxes or other surcharge obligations."

Judith Long, who teaches urban planning at Harvard, concluded that even these costs are usually underestimated when proposed to the taxpayers:

Governments pay far more to participate in the development of major league sports facilities than is commonly understood due to the routine omission of public subsidies for land and infrastructure, and the ongoing costs of operations, capital improvements, municipal services and foregone property taxes.

Adjusting for these omissions increases the average public subsidy by \$50 million.

That would bring the taxpayers' cost for the "free" Levi's Stadium to more than \$200 million, not counting any obligation incurred by the Stadium Authority. Another part of the risk is that Santa Clara itself is such a small town, with such a small tax base. Even adding in the county, its population is just 10 percent of the 17 million populating metro San Francisco. No matter how one does the math, the town is making a massive bet on everything turning out just right. As writers Darrell Preston and Aaron Kuriloff of *Bloomberg* expressed it, "The city is taking what may be the largest per-capita risk for any municipal sports facility [in the country]." The budget for the city itself is just barely \$140 million a year.

Roger Noll, a retired professor of economics at Stanford University, looked at the numbers and came to the same conclusion:

The thing that makes this such a dog is that Santa Clara first of all is a small town. There's some



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amount of financial hit the city could probably pay [if things don't pan out as projected], but the probability that it's going to exceed that is certainly not zero.

That is how a retired college professor says that Santa Clara is taking a huge risk. Within the next three to five years, after "normalization" about attendance, winning games, traffic congestion, interest rates, and maintenance expenses, the taxpayers will know.

Now that the stadium is finished, all the people behind the massive project are counting on those fans to come. Just because they built it doesn't mean they will.

*Photo of ribbon-cutting ceremony at Levi's Stadium in Santa Clara, California: AP Images*

*A graduate of Cornell University and a former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at [www.LightFromTheRight.com](http://www.LightFromTheRight.com), primarily on economics and politics. He can be reached at [badelman@thenewamerican.com](mailto:badelman@thenewamerican.com).*



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