THE WALL STREET JOURNAL.
WSJ.com

ECONOMY | JULY 12, 2011

A Stadium's Costly Legacy Throws Taxpayers for a Loss

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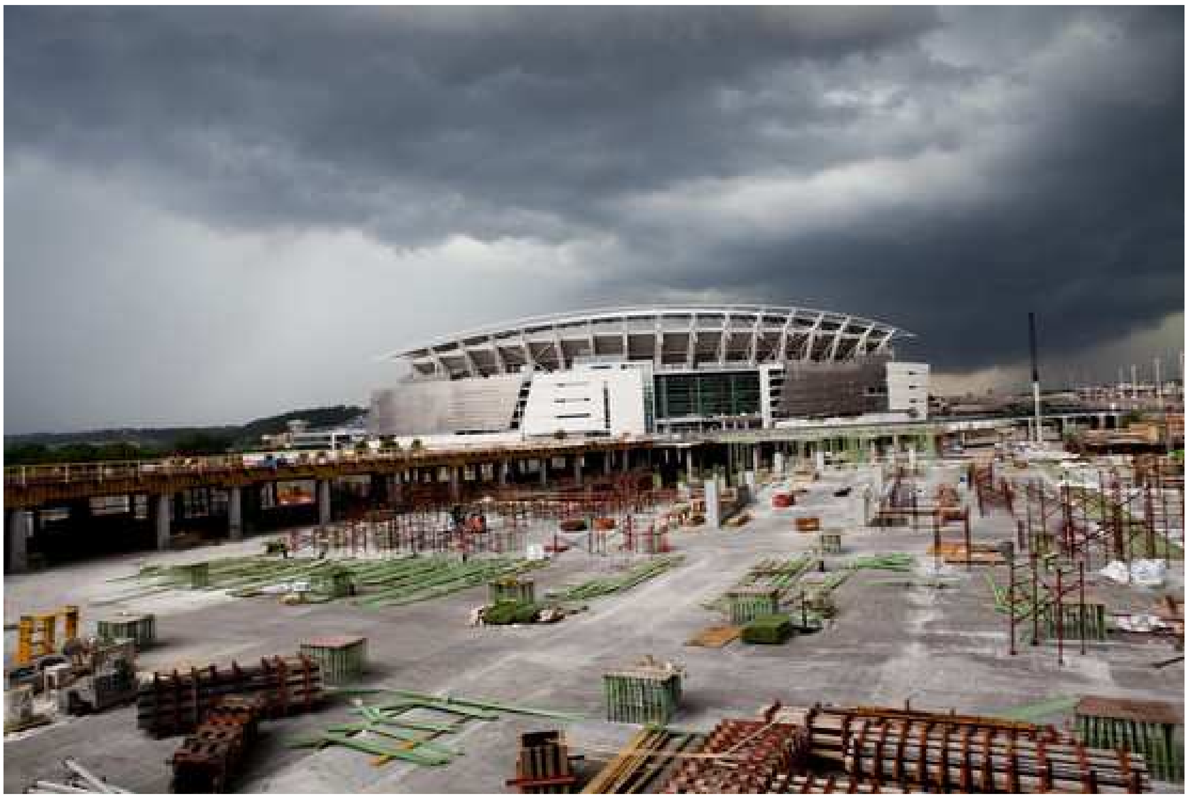

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Paul Brown Stadium, home of the Cincinnati Bengals.

CINCINNATI—Here in Hamilton County, where one in seven people lives beneath the poverty line and budget cuts have left gaps in the schools and sheriffs department, residents are bracing for more belt-tightening: rollback of a property-tax break promised as part of a 1996 plan to entice voters to pay for two new stadiums.

The tax hit is just the latest in a string of unforeseen consequences from what has turned into one of the worst professional sports deals ever struck by a local government—soaking up unprecedented tax dollars and county resources while returning little economic benefit.

With a combined estimated cost of $540 million, the stadiums—one for football's Bengals, the other for baseball's Reds—were touted by the teams and county officials as a way to generate cash and jobs. The Bengals, who had threatened to relocate if they didn't secure a new home, drove negotiations. And it is that deal—the more lucrative arrangement struck with the teams—that has fanned the county's current struggles.

Reed Albergotti/The Wall Street Journal

Hamilton County has cut funding for social programs and other budget items. One enduring obligation: its huge debt payments for Paul Brown Stadium.

An analysis by The Wall Street Journal shows that of the 23 National Football League stadiums built or renovated between 1992 and 2010, only two involved a single county government willing to shoulder the debt burden necessary to build costly new facilities. Of those 23 deals, the Bengals pact was unusually lopsided in favor of the team and risky for taxpayers—the result of strained negotiations between a local government and the professional sports team it was anxious to keep.

At its completion in 2000, Paul Brown Stadium had soared over its $280 million budget—and the fiscal finger-pointing had already begun.

The county says the final cost was $454 million. The team's estimate, which doesn't include infrastructure work around the stadium, puts the tab at $350 million.

But according to research by Judith Grant Long, a Harvard University professor who studies stadium finance, the cost to the public was closer to $555 million once other expenditures, such as special elevated parking structures, are factored in. No other NFL stadium had ever received that much public financing.

A spokesman for the Bengals, vice president Troy Blackburn, says the deal was fairly negotiated and similar to other arrangements made by NFL teams at the time.

He attributes the cost overruns to the county's decision to move the stadium location to a site where it was more expensive to build.

Hamilton County commissioners say the location change accounted for only $70 million of the extra costs.

A preliminary PricewaterhouseCoopers audit of construction costs, reviewed by the Journal, found that there were insufficient financial controls on the part of various project managers and contractors hired by the county. It notes that at least $35 million of the cost overruns were unrelated to the site change, of which the Bengals were responsible for roughly $4 million.

The auditors, citing "blurred accountability," said they hadn't been given enough information for a full accounting. "Each party suggested that we speak to other parties about specific details of the changes," they said in the report.

On top of paying for the stadium, Hamilton County granted the Bengals generous lease terms. It agreed to pick up nearly all operating and capital improvement costs—and to foot the bill for high-tech bells and whistles that have yet to be invented, like a "holographic replay machine." No team had snared such concessions in addition to huge sums of public money, Journal research shows.

To help finance its stadiums, Hamilton County assumed more than $1 billion in debt by issuing its own bonds without any help from the surrounding counties or the state. As debt service ratchets up, officials expect debt payments to create a $30 million budget deficit by 2012.

"The Cincinnati deal combined taking on a gargantuan responsibility with setting new records for optimistic forecasting," says Roger Noll, a professor of economics at Stanford University who has written about the deal. "It takes both to put you in a deep hole, and that's a pretty deep hole."

The stadium's annual tab continues to escalate, according to the county's website. In 2008, the Bengals' stadium cost to taxpayers was $29.9 million, an amount equivalent to 11% of the county's general fund.

Last year, it rose to $34.6 million—a sum equal to 16.4% of the county budget. That's a huge multiple compared to other football stadiums of the era that similarly relied on county bonds for financing. Those facilities have cost-to-budget ratios of less than 2%.

Robert Boland, sports business professor at New York University's Tisch Center says that while the Cincinnati deal was skewed, it's important to remember there were two sides at the table. "You can't blame the Bengals at all for negotiating the most favorable deal they can," he says. Hamilton County was a "willing participant."

Given the national economic slump, the county budget would have run into trouble with or without the Bengals deal. But county officials say the cuts are deeper and longer lasting because of it. Unlike most areas of the budget, the stadium can't be pared.

"It's the monster that ate the public sector," says Mark Reed, Hamilton County's juvenile court administrator.

Like many other items in the budget, the juvenile court has seen its funding slashed—by $13.4 million from 2008 to 2010. It was forced to nix funding for programs like Youth, Inc., which worked with troubled adolescents.

County Auditor Dusty Rhodes initially supported the stadium deal—partly as a matter of civic pride. But now he feels differently about the costly legacy that has grown in the arenas' shadow—and believes there's plenty of blame to go around.

The county, he underscores, has used some of the tax dollars earmarked for the stadium on things like a road project and a new waterfront development. "They just went nuts spending this money for stuff that was not envisioned," he says.

The Bengals maintain that the county has made a series of financial moves that left it vulnerable to a downturn. "If you make a decision to fund something, you can't try to hold somebody else responsible for that decision," says Mr. Blackburn.

The Reds, through a spokesman, said the team is under new ownership and can't speak to any local financial problems. The Reds' Great American Ballpark, completed in 2003, didn't go over budget and today is largely self-supporting.

Cincinnati's deal, like many of similar vintage, was crafted as a way to keep sports franchises in place. In the 1990s, many pro teams threatened to relocate unless their local governments could offer subsidies.

Teams were given public land and rent abatements. Some received new stadiums worth upwards of half a billion dollars, paid for in large part with government bonds.

But unlike in Cincinnati, where a single county shoulders most of the risk, the exposure for most NFL stadium deals has typically been spread over a large area. When the Pittsburgh Steelers and Philadelphia Eagles got new fields, in 2001 and 2003, the state of Pennsylvania picked up some of the tab. When the Denver Broncos landed a new stadium in 2001, six counties carried the burden.

Hillsborough County, home of the Tampa Bay Buccaneers, was another exception, shouldering most of its stadium costs.

The Bengals and the Reds had shared a facility called Riverfront Stadium since 1970. The push for separate homes was led by the Bengals, who had said as early as 1995 that without a new stadium they might be forced to relocate.

Some local officials had cautioned that the stadium expense was too great. They warned that the projected $300 million in economic benefits, outlined in a report commissioned by the county, were exaggerated.

Tom Luken, a former Cincinnati mayor and councilman, actively campaigned against the deal. "Anybody with half a brain can figure that this is a bad deal," he says. "As it turned out, it was even worse than they painted it."

The Bengals' Mr. Blackburn says that residents were "an informed and engaged electorate."

Negotiations between the Bengals and the county were ultimately handled by a three-person county board of commissioners. One of those commissioners, Bob Bedinghaus, joined the Bengals in 2001 and is now the team's director of business development.

Hamilton County voters overwhelmingly approved a half-percent sales tax increase in March 1996, paving the way for the pair of stadiums. In exchange, residents were promised a property-tax rollback and more funding for public schools.

After the vote, the Bengals haggled for roughly a year with the county over the construction and lease terms under a deadline imposed by the team, which refused to share its financial records, according to a county official present at the meetings.

Among the sticking points: who would pocket the millions in annual parking revenue (the Bengals now collect those funds) and who would pay for security costs (the county picks up the bills).

The Bengals say that the county had expert consultants during the negotiations and that NFL teams don't make financial information publicly available.

All along, the Bengals had used as leverage offers from other cities, including Baltimore—saying the city had floated a better deal.

A letter dated June 1, 1995, which was reviewed by the Journal, suggests the team had exaggerated one of its prospects. Sent by an attorney for The Maryland Stadium Authority, it stated that any Baltimore deal would be capped at $200 million, or 16% less than what Hamilton County officials had been dangling. Maryland also refused to cover operational costs.

It said that neither the governor nor the stadium authority would support "any proposal which contemplates seeking legislative approval for additional government funding."

Stuart Dornette, the Bengals attorney, maintains that the Baltimore deal was better, in part because the home team would get to keep revenue from other events held in the stadium. He says the team also believed the $200 million cost limit was flexible.

John Moag, head of the Baltimore stadium authority at the time, disputes that notion, and reiterates that there was no additional government funding available. The more favorable terms the team secured from Cincinnati, he says, "may be the best deal in the NFL."

Hamilton County ultimately agreed to cover all stadium cost overruns as well as most operating and upkeep expenses—a tab of roughly $8 million per year.

As soon as the Bengals stadium went up, sales tax revenue began to slow from the record growth the county had seen in the mid-1990s. The county has had to restructure the debt on the stadium a number of times to keep up with payments. Late last year, officials announced they would have to break their promise about reducing property taxes for 2011.

In the fall of last year, the Bengals offered to make larger lease payments to help the county pay debt service on the stadium. In exchange, the team asked for $43 million in capital improvements, among other concessions. One item on the wish list: a high-definition video scoreboard. The talks, however, fell apart, and a new lease was never negotiated.

Recently, as local officials mulled new ways to stretch the budget, one commissioner suggested making up for the tax hike by cutting another property-tax levy: one that funds health services for the poor. A decision on the budget is still pending.

The Bengals had said that with a new stadium, the team's revenue would increase, allowing it to sign better players, win more games and attract more fans to the area. In 2000, the new stadium's first year, the Bengals had the same record they'd had the previous year, 4-12. Since then, the team has managed just two winning seasons in the new facility. Its attendance levels have actually dropped.

Mr. Dornette, the Bengals' attorney, says the team is spending roughly what other teams spend on player salaries.

Harold Flaherty, a former schoolteacher, says he is livid about the sports pact. "It staggers my imagination that we should pay for this," he says. "I think it's the dumbest thing we ever did." Mr.

Flaherty, 77, will pay about $240 more in property taxes this year due to the rollback.

Mr. Flaherty, a sports fan who voted against the stadium deal, says he doesn't go to Bengals games. "I already give them money," he says.

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