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As Revenue Plunges, Stadium Boom Adds to Municipal Woes

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Photos by Tom Uhlman

CINCINNATI — Years after a wave of construction brought publicly financed stadiums costing billions of dollars to cities across the country, taxpayers are once again being asked to reach into their pockets.

In 1996, voters approved a sales tax increase to build Paul Brown Stadium as part of a redevelopment project and to keep the Bengals in Cincinnati.

From New Jersey to Ohio to Arizona, the stadiums were sold as a key to redevelopment and as the only way to retain sports franchises. But the deals that were used to persuade taxpayers to finance their construction have in many cases backfired, the result of overly optimistic revenue assumptions and the recession.

Nowhere is the problem more acute than in Cincinnati. In 1996, voters in Hamilton County approved an increase of half of one percent in the sales tax that promised to build and maintain stadiums for the Bengals and the Reds, pay Cincinnati's public schools and give homeowners an annual property tax rebate. The stadiums were supposed to spur development of the city's dilapidated riverfront.

But sales tax receipts have fallen so fast in the last year that the county is now scrambling to bridge a $14 million deficit in its sales tax fund. The public schools, which deferred taking their share for years, want their money.

The teams have not volunteered to rewrite their leases. So in the coming weeks, the county plans to cut basic services, lower its legal bills and drain a bond reserve fund with no plan for paying it back.

Cincinnati is hardly alone. In Indianapolis, the Capital Improvement Board spent 2009 trying to find $32 million to run the Lucas Oil Stadium and convention center. In Milwaukee, a drop in sales tax receipts may delay by several years the date for paying off the bonds issued to build Miller Park, the home of the Brewers.

"Anyone looking at this objectively knows it's a train wreck," said Dusty Rhodes, the county auditor. "I told them they were making a big mistake, but they didn't want to hear me."

Dusty Rhodes, the Hamilton County auditor, said the sales tax plan to build the stadiums in Cincinnati was a "big mistake".

Columbus, Ohio, is considering using public money to keep the Blue Jackets in town. Glendale, Ariz., has fought to hold the Phoenix Coyotes to their long-term lease. In New Jersey, a ticket surcharge may be added to help resolve a tenant-landlord dispute between the Devils and Newark.

Mark Rosentraub, the author of the book "Major League Losers," said that many of the stadium deals included "revenue bombs," with financial traps like balloon payments on debt in later years and sweeteners like the Hamilton County property tax rebate to win public support.

In many cases, the architects of the deals are long gone by the time the bill comes due.

“This is one of the effects of the economic tsunami sweeping through,” Rosentraub said of the deficits.

The 1996 proposal to build stadiums for the Bengals and the Reds had plenty of proponents. The economy was growing, Riverfront Stadium was outdated and the Bengals were hinting that they would move, as the Browns had done.

The plan went awry almost from the start. The football stadium exceeded its budget by $50 million, forcing the county to issue more bonds. Forecasts for growth in the sales tax turned out to be too rosy. The teams received sweetheart leases. In 2000, voters threw out the county commissioners who cut the deal.

That year the sales tax grew 1.8 percent, the first of many years below the 3 percent forecast. Both stadiums were originally expected to cost $500 million combined. Yet Paul Brown Stadium alone cost $455 million and the Great American Ballpark, the Reds’ home a few hundred yards down the Ohio River, cost $337 million by the time it opened in 2003.

The generous deal for the Bengals has been a sore spot. The team had to pay rent only through 2009 on its 26-year lease, and has to cover the cost of running the stadium only for game days. Starting in 2017, the county will reimburse the team for these costs, too. The county will pay $8.5 million this year to keep the stadium going.

The Bengals keep revenue from naming rights, advertising, tickets, suites and most parking. If the county wants to recoup money by taxing tickets, concessions or parking, it needs the team’s approval.

Compared with the lucrative deals for teams in Baltimore, St. Louis and elsewhere, the Bengals won a particularly lopsided lease.

Bob Bedinghaus, the commissioner who spearheaded the stadium project, said as much in 2000.

“They’re an organization that’s run by lawyers, and they look for every penny around every corner,” he told The Cincinnati Enquirer. “It’s going to be a difficult relationship going forward for the next 30 years.”

Bedinghaus lost his re-election bid soon after. He now works as the Bengals' director of stadium development. Through a team spokesman, Bedinghaus declined to be interviewed. The Bengals also declined to comment. Several telephone and e-mail attempts to reach the Reds' management were unsuccessful.

Hamilton County started using some of the proceeds from the sales tax fund to jump-start construction of a redevelopment district with the stadiums as bookends. After years of delays, cranes dot the riverfront that will eventually include a hotel, shops and hundreds of homes.

Critics like Rhodes contend that the tax was never meant to pay for the real estate project. But Cincinnati business leaders, eager to reverse the flow of money to the suburbs, say the stadiums were just the beginning of a transformation of the riverfront.

"We need to build this neighborhood so that it becomes the center of someplace you want to go," said Thomas L. Gabelman, the outside counsel for the county on the riverfront development.

Gabelman said that most of the money for the $1.2 billion project comes from federal and state grants and private financing. No more than $3 million annually comes from the sales tax fund, which brings in about $60 million a year.

Problems persist. In 2004, Todd Portune, the commissioner who unseated Bedinghaus, sued unsuccessfully to change the Bengals' lease. In 2006, the Cincinnati public schools agreed to defer their payments from the sales tax fund for three years to help cover shortfalls.

Still, the gap between expected and actual sales taxes continues to grow, something the county administration had been warning for years. In August, the administrator predicted not only a $14 million shortfall next year, but also a $94 million gap in 2014, a year after interest payments on the stadium bonds rise 44 percent. By then, the Reds will no longer be paying rent.

Last month, two of the three commissioners voted against cutting the property tax rebate, fearing a voter backlash. Raising the sales tax again was not proposed for the same reason.

“It can’t be 100 percent on the backs of taxpayers,” said Greg Hartmann, the lone Republican commissioner. “We gave away too much to keep the Bengals in Cincinnati. There has to be some middle ground.”

Hartmann and Portune want to introduce a tobacco tax, but lawmakers in Columbus, the state capital, may be unwilling to approve it.

So they have ordered more cuts in basic county administrative services, something that creates a slippery slope, said David Pepper, the commissioner who voted against the proposal.

“It’s like the movie where the blob keeps growing and eating away at other elements of county government,” Pepper said. “We’re beginning to cross a line in the sand by taking money from the general fund to pay for the stadiums. Once you put that money in jeopardy, you put the whole county at risk.”