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Re: Possible House Budget Amendment for the Cleveland Browns
LSC Draft HC0786-1

OBM reviewed the draft amendment circulated by the media, LSC Draft HC0786-1, which would authorize \$600 million in state General Revenue Fund (GRF)-backed bonds for a Cleveland Browns stadium in Brook Park. As you know, I met with representatives of Haslam Sports Group (HSG)/Cleveland Browns over the past several months and shared concerns about their projections and asked questions about financial and economic assumptions. This memo analyzes provisions in the amendment using information previously shared by HSG and presented by HSG in a hearing before the House Arts, Athletics, and Tourism Committee. OBM has not received detailed documentation from HSG supporting their most recent presentation. Following our review of available data, OBM is concerned about the burden that this project would place on Ohio taxpayers and the state GRF, with questions about the HSG methodology and resulting projections. OBM does not support the amendment.

Size of the Project

The total project size has changed over time. In the meeting on June 20, 2024, HSG outlined a \$3.8 billion project (slides presented at the June 20, 2024 meeting, page 11). However, in recent presentations, including their presentation to the House Committee, the project is now characterized as a \$3.4 billion project. Further, it became clear during our meeting with HSG in December 2024 that the project includes three phases totaling *up to* \$3.4 billion; however, HSG has only “committed” to Phase 1. According to my notes, total investment (public and private) estimated in Phase 1 totals \$2.4 billion; however, I cannot locate a document from HSG that confirms that number. Obviously, the size of the project is critical to forecasting potential economic impacts, and it appears that the project size decreased over the course of discussions, with caveats about phasing recently added by HSG.

State Tax Revenues Generated by the Project

The draft amendment would for the first time create a mechanism that would lock up all state sales, income, and commercial activity taxes within a specific area. Such restrictions on the

state's key general fund sources would be unprecedented. The steps that the Tax Commissioner would be required to take to implement the provisions of the amendment, over at least 25 years, would be administratively burdensome. The section below entitled "Taxing Structure" further details the complications and unanswered questions related to the implementation of the tax provisions in the amendment.

Setting aside the complicated *structure* of the proposal, HSG inappropriately overstates projections of future taxes generated by the project, over-inflating positive impacts of the Brook Park development. This is a key problem because, under their proposed structure, state tax revenue would be necessary to pay debt service on bonds for at least 25 years.

Sales Taxes: According to spreadsheets shared by HSG outlining previous iterations of their plan, most of the "new" tax revenue generated by the project, and therefore dedicated to funding the bonds, is from state sales taxes. For example, the HSG spreadsheet dated October 4, 2024 estimated that between 75-85 percent of the annual "net new revenue" in their model would come from sales taxes. The amendment language appears to contemplate the receipt of sales taxes generated from building materials used in constructing the sports facility. However, if the state or a local subdivision owns the facility, as appears to be clearly contemplated in the draft amendment, such materials would be exempt from sales tax. Even if the facility is not owned by the state or a local government, the revenue might be generated in advance of the facility lease and therefore not be included in the revenue stream. In addition, Ohio does not apply sales tax to parking or event admissions. This could substantially impact the revenue stream of the contemplated sports facility project. **OBM needs detailed data from HSG to evaluate their sales tax projections since it seems that they could be counting economic activities that are exempted from state sales taxes.**

Income Taxes: The HSG spreadsheet from October 4, 2024 estimates that 10-15 percent of the "net new revenue" would come from state income taxes generated in the project area. The slide deck and testimony presented to the House stated that the project would support "6,000 construction jobs and 5,000 new full-time jobs." Looking first at their estimates of 5,000 "new jobs," OBM notes that most of the 5,000 jobs already exist. Reviewing the data in the income tax portion of the spreadsheet shared on October 4, 2024, the following jobs are clearly **not new**:

- All Cleveland Browns players, opponent team players, Browns non-player personnel, and opponent non-player personnel,
- 1,720 game-specific stadium staff (note: it appears that this number is 70 higher than their current stadium staff, so these 70 may be net new),

- 59 full-time stadium staff,
- 1,190 major event stadium staff – also likely the same people as the game-specific stadium staff listed above,
- 60 private event staff,
- 176 training camp staff,
- 95 Browns Enterprise staff,
- 614 PT/intern/seasonal staff,
- 240 office employees in the office buildings – growing to 1,200 through all later phases – office buildings do not create jobs – the offices in the Brook Park would most likely house office workers relocated from elsewhere in NE Ohio.

Their spreadsheet lists the following jobs which OBM determines seem to be new:

- 1,000 retail employees (growing to 1,100 through all phases),
- 6 rental apartment employees (growing to 54 through all of the later phases),
- 74 hotel employees (growing to 250 in later phases),
- 3 development employees,
- 2 multifamily housing employees (in Berea?),
- 5 student housing employees (Berea?),
- 40 hotel employees (Berea?),
- 40 retail employees (Berea?),
- 50 medical facility employees (Berea?),
- 1 Community Field employee (Berea?),
- 14 rec center employees (Berea?),
- 3 development employees (Berea?).

The “new” jobs, including those that appear to be in Berea and not in the footprint of the Brook Park development, total 1,238 (1,514 through all phases), not 5,000. These 1,200-1,500 service sector jobs would not generate income tax revenue sufficient to meet the debt service obligations on the project bonds.

The construction jobs predicted by HSG also appear to be wildly overblown. According to the presentation to the House, HSG claims their project will support 6,000 construction jobs. As a comparison, the Intel project is estimated to support 7,000 construction jobs over the course of the build – a project that is roughly ten times the size of the Browns’ planned full-phase build-out.

Additionally, the HSG proposal depends on numerous new events being held in the enclosed stadium (concerts, etc.). However, the number of events presumed greatly exceeds the number of events held in other existing domes in Detroit, Minneapolis, and Indianapolis. While we have not seen their latest plan, an earlier version presumed 44 event days including seven additional concerts. Note that would be more acts than do annual stadium tours and most stadium tours already stop somewhere in Ohio. Ford Field in Detroit lists six concerts planned for the entirety of 2025, including some acts that also have dates planned in Ohio.

Business Model

Under this proposal, the state would own or hold sufficient property interest in a new stadium. The state does not currently own any professional sports stadiums/fields/arenas. The amendment does not provide any mechanism for maintenance or upkeep of the facility, a concern raised in discussions with HSG representatives. The state would own this facility and bear responsibility for future maintenance with no dedicated revenue source. OBM estimates the cost of maintenance at \$19.9 million per year. Further, while the state would own or hold a significant property interest in the stadium, the amendment does not provide for a commensurate revenue sharing arrangement. **If this amendment is enacted, OBM recommends that the state receive revenue-sharing from events commensurate with our property ownership share. If the state owns or partially owns the facility, the state should be entitled to revenue sharing from its use.**

Bonding Structure

The [State of Ohio Debt and Interest Rate Risk Management Policy](#) is a joint policy between the Ohio Public Facilities Commission (OPFC), the Treasurer of State, and OBM. The policy requires that we manage debt to achieve the lowest cost of capital. The policy also states that debt should be issued with the earliest optional redemption date that is determined to be cost effective. **Ohio generally issues cultural and sports facilities debt for 10 years.** Ohio has not issued debt for longer than 20 years since the late 1980s. **However, the draft amendment restricts the bond maturity dates to not less than 25 years.** The 25-year structure assumes that the revenue generated will cover the cost or debt service, however, a longer term costs more over the life of the bonds. The cost, if financed over 25 years as

proposed, would total roughly \$1.01 billion. Therefore, the proposal to bond \$600 million will likely cost close to twice as much as the Administration's proposal to use cash from increased sports gaming tax.

Furthermore, Federal tax law sets forth parameters for tax-exempt bonds, lowering the cost of the total debt over time. To maintain tax-exempt status, the private use of a facility is limited to five percent and further limited to \$15 million for each bond issuance. Under current law, state-funding for projects supporting sports facilities cannot exceed 15 percent of the total cost of the project. With public interest in the facility, we keep the private use to less than five percent of the state allowance for 15 percent of the project. **It appears that the size and nature of the proposed project will not meet IRS terms for tax-exempt status and therefore this project would need to be financed with taxable bonds. OBM estimates that a taxable issuance of this size will cost the state \$200 million more over the life of the bonds compared to a tax-exempt issuance.** The largest state taxable bond issuance in our records was \$100 million for Ohio Third Frontier, issued in 2013, 2016, and 2019.

The legislation proposes collecting tax revenue within the location of the project to pay the debt service on the bonds. This proposed revenue structure would require a separate rating from our rating agencies. This would not guarantee rating on parity with existing cultural and sports facilities bonds because the promised repayment differs. **Credit rating agencies will assess whether the new repayment stream provides sufficient coverage. The rating agencies will likely find geographic risk because revenue is localized to a specific area of the state that is more susceptible to downturns by region.** Additionally, the proposed project is in a region likely to experience further population decline. Divergent ratings can deter investors, making it harder to attract funding. A lower rating would increase the cost of borrowing. Additionally, the rating agencies could view this change as a risk to Ohio's default issuer credit ratings as it would open the door to future GRF carve outs from the legislature, which would pose risk the integrity of the GRF revenue stream that supports repayments on general revenue and lease-revenue debt.

The annual debt service cost could range from a low of \$35 million per year to a potential high of \$81 million per year, depending on the terms. This annual cost would be borne by the state General Revenue Fund and would be required to be appropriated in each state budget. Even in the Browns' optimistic scenario, they estimate the annual state debt service cost to be \$38 million per year over 25 years. However, as noted above and as has been explained to HSG, while our policy allows for 25-year bond sales, the state has not issued bonds with terms longer than 20 years since at least 1989.

Taxing Structure

There is an inconsistency in the proposed amendment regarding criteria required for the major sports facility bonds to be issued. For the project bonds to move forward, the developer must provide a revenue projection that is an “incremental” calculation above baseline revenue. **However, the actual payments to the bond fund are the total qualifying state tax revenue amounts generated in the project district’s territory: these payments are not incremental in nature. It is risky for the state to undertake a bond issuance using a revenue projection that is not even consistent with the nature of the actual revenue stream.**

It is not clear to what extent state income tax revenue is to be included in the revenue stream. OBM has many questions about this. For example, does the language intend to include only employer withholding, or are other forms of income tax payment also to be included? The reference to Ohio Revised Code Chapter 5747 appears to imply the latter, but that would likely bring more complication. (For example, are the tax return filings by individuals employed in the district to be included, with their estimated payments and annual return tax payments or refunds? Another example would be the tax collected from the net income of pass-through entities.) Since individuals and businesses would typically have some taxable income generated outside the project district, tax administration becomes more complicated and the compliance burden on taxpayers increases.

This taxing structure also brings risks related to the handling of private data. **The amendment requires the “public authority” that owns or has an ownership interest in the sports facility to provide the Department of Taxation with social security numbers of persons and federal employer identification numbers of businesses generating state tax revenue in the district.** This is a questionable and concerning requirement, giving the public authority a key administrative role even though such authority may not have direct supervision of and involvement with the numerous parties operating within the district.

Upfront Payment “Prepaid Rent”

The draft amendment includes a requirement that a five percent deposit be made by the sports franchise to an escrow account to be used to pay any deficits between tax revenues collected and the total bond amount. HSG indicates that their “prepaid rent” payment would be \$38.25 million. Note that **this does even equate to one year’s worth of debt service.** Additionally, we have not yet consulted the Treasurer of State regarding how this fund would be managed. This five percent deposit is not compelling and does not ensure the fiscal soundness of the proposal.

State Capital Budget Capacity

While the amendment is not clear about the timing of the bond issuance, **this proposal either adds \$600 million to the total GRF-backed debt included in the last capital budget, or it “pre-spends” \$600 million of the next capital budget.**

The state has major unfinished business to tackle in the upcoming capital bill, including at least \$250 million for the Dayton mental health hospital, roughly \$500 million for DYS over the next few capital bills to replace all the facilities, major ongoing needs at DRC and ODNR, plus possibly \$200 million in each future capital bill for a bond-supported ongoing H2Ohio program. Additionally, the General Assembly proposed \$50 million more per year for the Public Works Commission State Capital Improvement Program (SCIP), a constitutional amendment that is on the May ballot. The state does not have the capacity to accommodate these priorities plus \$600 million in bonds for a single sports facility.

Economic Studies of Stadium Projects

Although a myriad of positive direct and indirect benefits can accompany new sports facility development, data shows that the public costs associated with the construction of sports facilities consistently outweigh those benefits. More than 130 studies on this topic have been conducted over more than 30 years. Analysis confirms the decades old consensus among sports economists that, the large subsidies commonly devoted to constructing professional sports venues are not justified as worthwhile public investments. Research demonstrates that owners of major league sports teams often look to state and local governments to subsidize new facilities for their teams, suggesting their presence will invigorate the local economy, create jobs, and spur development in their host cities and states. However, **abundant research over many years concludes that economic benefits do not outweigh the costs incurred by governments. The promised tangible economic benefits – economic growth, income growth, wage growth, employment growth, and higher tax revenues – do not occur the way sports teams claim. State and city governments are subsidizing development within a single neighborhood, with no tangible benefits for the rest of the city or state.** OBM has details on research findings, summarized below:

- Sports are inherently seasonal and result in facilities remaining idle between 77 and 97 percent of the year, depending on the sport. Despite this, sports facilities require year-round maintenance. Researchers estimate that sports facilities cost the host city more than \$19.9 million on average per year to maintain.

- Employment and earnings predicted by sports teams to result from the presence of sports facilities are typically not realized. For example, research showed that employment in the construction industry was the same during the construction phase of sports venues as before and after. This suggests that sports facilities merely substitute for other construction projects.
- While some argue that sports teams hire many workers, most of them are part-time, low-wage employees. Along with players, teams hire full-time team employees such as coaches, team assistants, and administrative employees. Although coaches receive very high salaries, other full-time positions are more in line with the average salary in the country. Part-time workers make up most of the workers hired for game day.
- **Despite the large role sports play in the American culture, professional sports teams are modest-sized enterprises compared to the local GDP.**
- In recent years, teams and owners began building new facilities with a dome or retractable roof to host other, non-sports-related events, such as concerts or speakers. However, recognizing that few events demand the amount of seating available at stadiums, sports economist Victor Mattheson notes that “the typical NFL stadium only has two or three concert events a year.” Aspirations for cities to host a Super Bowl or other ‘mega’ events are not economically prudent. The additional construction of, “hotels and transportation networks to meet peak demand during a mega-event may leave a city with severe excess capacity once the [event] is over.”
- It is also important to remember indirect costs that research shows that communities with sports facilities incur, including crime costs related to sporting events.

Conclusion

In summary, OBM has concerns about the underlying assumptions of this proposal. The projected economic impact runs directly counter to decades of research and evidence about the cost and benefits of professional sports stadiums. The structure of the proposed revenue is a complicated method that carves out General Revenue Fund receipts of a specific geographic location of the state. The unprecedented \$600 million in taxable bonds, backed with GRF dollars, would be the single most expensive bond issuance in our state history with a structure that violates the prudent policy set by the Treasurer of State, OBM, and the Ohio Public Facilities Commission. The total cost of this structure would exceed \$1 billion. Ohio would own a sports stadium and the responsibility for maintenance, with no additional revenue. OBM does not support this proposal.