HSG

HASLAM SPORTS GROUP

Responses to Office of Budget and Management's Memo Related to Amendment LSC Draft HC0786-1 for the Cleveland Browns Stadium Project

April 21, 2025

OBM's memo outlined various concerns, which we have addressed and are continuing to address in ongoing, collaborative dialogue with Governor DeWine and other State officials.

We have worked with our team of national experts[1] to prepare the below responses to the points in the OBM materials.

In the spirit of continued collaboration, our goal is to clear up misunderstandings about the project and proposed funding construct in an effort to move forward with creating a transformative, responsible development project for the State and its taxpayers.

- **OBM: "**The Amendment as drafted would create a complicated tax structure that carves out state General Revenue Fund tax receipts in a specific geographic location of the state."

  HSG Response: ***The proposed legislation does not restrict the use of the "district revenues" outside of the typical appropriation process of the General Assembly. The purpose of establishing the sports facility fund is twofold: (1) to ensure proper tracking of district revenues for the purpose of measuring incremental State revenues from the project, and (2) to more efficiently allow for the State to appropriate these revenues for payment of debt service on the proposed Bonds.***

  The governmental agency (a new community authority under ORC Section 349, which has been utilized for other sports facilities throughout the State), will own the sports facility and play a key administrative role in tracking district revenues. Under the proposed legislation, all district revenues are accounted for to calculate incremental

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district revenues, which are established by subtracting the base revenues from total district revenues.

- **OBM:** **“**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.”

  HSG Response: ***The proposed legislation does not direct the “district revenues” to a bond fund for the proposed bonds.*** *The legislative language makes clear that the use of these revenues to pay debt service is permissive on the part of the State.* ***The district revenues are tracked throughout the life of the stadium lease to ensure that the State is made whole on its investment.***

  Further, since the General Revenue Fund (GRF) revenue stream will support the repayment of the stadium bond debt service, with the State being made whole and receiving a return from incremental project-generated revenues (coupled with the escrow fund deposit to further de-risk the State as described below), the proposed structure would not require a separate rating from the rating agencies.

- **OBM:** “It is not clear to what extent state income tax revenue is to be included in the revenue stream. 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.”

  HSG Response: ***Our model includes all individual income taxes attributable to the district****, including collections from employees within the district, construction workers, and independent contractors. As noted elsewhere herein, the governmental agency which will own the Stadium will be a political subdivision of the State (a new community authority).* ***It is not outside the norm for a political subdivision to have proprietary information of taxpayers under its jurisdiction. Any such proprietary information will be protected in accordance with all applicable law.***

- **OBM:** "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."

  HSG Response: ***This is not accurate. As with virtually all sports facility projects in Ohio and throughout the country, the proposed bonds are expected to qualify for tax-exempt status*** *given the bonds will be issued to finance a governmental purpose and will not be secured by "private payments" under Federal tax regulations.*

  This is well established precedent including within the State of Ohio where facilities for the Cincinnati Bengals, Cincinnati Reds, Cincinnati FC, Cleveland Guardians, Cleveland Cavaliers and Columbus Crew (among other Ohio major league sports franchises) were all financed with tax-exempt bonds under the same criteria.

- **OBM:** "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. Ohio generally issues cultural and sports facilities debt for 10 years. However, the draft amendment restricts the bond maturity dates to *not less than* 25 years."

  HSG Response: *Although the $600M of bonds are proposed to be lease appropriation bonds (secured by GRF appropriations made by the General Assembly), debt service on the bonds will be accounted for by incremental district revenues (above a 2028 State revenue baseline) generated by the district itself.* ***There is substantial excess in our revenue projections to more than cover State debt service obligations, as well as unique elements of the proposed structure that further de-risk State taxpayers, including State dollars being used last in the stadium construction (rather than the more typical "pro rata" public private structure), and an unprecedented private HSG up-front escrow fund payment that was increased by the House in their final version of the Operating Budget. Further, the proposed financing structure fits well within the State's debt policies, including the 25-year maximum maturity and the 5% debt service limitation.***

  Under the State's Debt and Interest Rate Risk Management Policy (dated January 2025), the maximum maturity of an issuance of bonds payable from the GRF "should not exceed the useful life of the assets financed and in no event be more than 25 years *from the date of issuance." **The useful life of professional sports facilities, especially when properly maintained, is typically 30+ years, and the proposed legislation contemplates a structure with a 30-year lease and 25-year financing.***

As previously discussed, the maturity of the bonds is flexible – the 25-year structure was proposed to address cash flow concerns raised by the Administration and eliminate any possible annual shortfall of "incremental district revenues" vs. annual bond debt service in the early years of the project. Additionally, the State's annual debt service will not come near the 5% cap on annual debt service as a percentage of total GRF and lottery revenues. The State has capacity for an additional $800M in annual debt service until reaching the cap outlined in the debt policy – the ~$40M in annual debt service projected in our model is less than 5% of this amount.

- **OBM:** "The total cost of this structure would therefore exceed $1 billion."

  HSG Response: *As discussed earlier, the stadium finance bonds contemplated here are expected to be eligible for tax-exempt status. The total projected debt service on the $600M of tax-exempt bonds is $998M. While the total cost to retire the debt will be more than $600 million over the life of the bonds, **the incremental district revenues generated for the State by the project exceed $2.2 billion over this same period, and after debt service, the State is projected to achieve a return of over $1.3 billion, which far outweighs the costs of servicing the bonds.***

- **OBM:** "Ohio would own or partially own a sports stadium and the responsibility for maintenance, with no additional revenue. The state does not currently own any professional sports stadiums/fields/arenas. If this amendment is enacted, OBM recommends that the state receive revenue-sharing from events commensurate with our property ownership share."

  HSG Response: ***This is not accurate. The State will not own the proposed Brook Park stadium or be responsible for any maintenance thereof.***

  Consistent with the existing practice within the State, it is anticipated that a political subdivision (a to-be-formed new community authority) will own the stadium. The State will maintain "sufficient property interests in the facility" through a "cooperative use agreement" with the owner of the sports facility, which has been done for Lower.com Field in Columbus, TQL Stadium in Cincinnati, and other sports facilities in the State of Ohio that received financial assistance under ORC 123.281. Further, *HSG recognizes the expense of maintaining a world-class facility, which its consultants have estimated to be ~$400 million over the life of the proposed lease. A dedicated funding source for these costs has always been a critical part of the HSG proposal and one that HSG intends to solve in conjunction with its local partners. The State will not be responsible for these (or any) ongoing stadium costs.*

- **OBM:** “It appears that HSG’s project size has already decreased over the course of discussions, with caveats about phasing recently added. In the meeting on June 20, 2024, HSG outlined a $3.8 billion project. Recent presentations have now characterized it 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 and HSG has only “committed” to Phase 1 which we believe totals $2.4 billion including half from public sources.”

  HSG Response: *We worked with our developer partner, Lincoln Property Company, to validate the phased program for the mixed-use development based on their master plan and market studies. There is ample evidence suggesting the contemplated economic development project is market feasible and achievable.* ***The domed NFL facility alone is a $2.4 billion project (not including any cost overruns, which will be covered by HSG), and the mixed-use development project is estimated to cost an additional $800 million - $ 1 billion across all phases for a total project investment of $3.2 billion - $3.4 billion. HSG and Lincoln both have track records of executing projects and following through, and are committed to completing all phases of the development project****.*

  Further, we have shared that phase one of the mixed-use development, which accounts for ~70+% of the contemplated mixed-use development, will open contemporaneously with the domed stadium in 2029.

- **OBM:** “The state tax revenue projections forecast by HSG do not stand up to scrutiny. While most of the revenue they forecast comes from future state sales tax, it seems that they may be counting economic activities that are exempt from state sales tax. 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. In addition, Ohio does not apply sales tax to parking or event admissions.”

HSG Response: ***Our model only contemplates sales tax on Furniture, Fixtures & Equipment at the new stadium*** *(i.e., those items that are not physically "incorporated" into the real property, which generally include personal property like furniture and fixtures), which often is subject to state sales tax, even in publicly owned facilities. Even if this FF&E were to be exempt from State sales tax (for example, under certain limited circumstances as outlined in ORC 5709.081(C)),* ***our model only projects $7.4M in total sales tax revenues to the State from these materials, which represents 0.3% of the project's nearly $3B total fiscal impact to the State. Removing this line from the model will not impact the State's ability to support $600M in bonds*** *paid for by incremental project-generated revenues. Furthermore, our State fiscal impact model does not include sales tax revenues from parking or event admissions.*

- **OBM:** "On the income tax side, the new full-time jobs total at most 1,238, or 1,514 through all phases, not 5,000. HSG also 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."

HSG Response: ***The income tax revenue under the proposed financing structure reflects incremental income tax revenue to the State of Ohio. Whether a job is new or existing has no impact on the incremental revenue relative to 2028 levels.***

Regarding full-time employment, our projection of 5,370 permanent jobs reflects the number of direct FTE jobs supported at the stadium (866), created in the mixed-use district (2,520), and generated by spending at surrounding businesses (1,984).

The lower estimate cited in the memo (1,514) appears to assume all office and stadium employment would be existing, potentially overlooking the project's broader impacts. On the office side, there are numerous examples—ranging from Microsoft in Green Bay's Titletown to Papa John's at Atlanta's The Battery—of sports-anchored developments attracting major employers not previously in those markets. A new Class A offering, integrated within a thoughtfully designed mixed-use environment and alongside the team's brand, has the unique ability to draw tenants who would not otherwise locate in Northeast Ohio. On the stadium side, a majority (55%) of projected FTE jobs would be attributable to concerts and major events made possible *by a dome stadium, and these jobs would be additive to ones attributable to Browns games.*

Regarding Cleveland Browns players, opponent players, and non-player personnel, the total income tax collections generated by this group are 18% of the total project's economic impact. Although these jobs are not necessarily new, we are only relying on incremental income tax revenues above the 2028 State baseline for our funding structure, which are new revenues compared to where the State is today. Furthermore, we have run several analyses excluding the impact of player income taxes, which we have presented to OBM. Given the substantial cushion in our revenue projections, the State would still be able to support $600M in bonds with a return of $784M without including player or non-player personnel income tax collections. Regardless of whether these revenues are "net new" to the State, the Browns should still get credit for this fiscal impact given the State would not be receiving this benefit but for the team being in Ohio, and these revenues are incremental above the 2028 baseline.

*As for construction employment, we cannot speak to the veracity of the Intel numbers. However, **Intel is a different type of project, and one reason for the high price tags associated with specialized manufacturing/industrial developments is the amount of equipment that must go into them. FF&E does not generate construction employment,** so a comparison to a projected cost that includes these items is not relevant.*

Regarding the numbers for the Brook Park project, however, our projection of 6,098 construction jobs reflects the number of jobs that are expected to be on-site during the first three years of development, when construction on the stadium and first phase of real estate is underway. The projection was derived based on the value of this construction using IMPLAN, a widely recognized input-output economic modeling system used by economists, policy makers, and analysts to quantify the economic impacts of projects.

- **OBM:** "Their proposal for "pre-paid rent" does not even equal one year of debt service."

HSG Response: ***This concept, which is unprecedented for Ohio sports facility projects, was introduced to further reduce any risk to the State of a shortfall in projected revenues over the life of the stadium lease (30-years). The proposed***

funding construct does not provide this pre-paid rent to fund annual debt service – it is only used (if ever) after the bonds have been fully paid.

Given the substantial cushion in our projections, the incremental district revenues would have to underperform by more than 40% for the entire ~$200M of pre-paid rent (including interest earnings on the initial deposit) to be needed to make the State whole for an overall shortfall between incremental district revenues and bond debt service. It is worth noting that since the date of the memo, the House in its final version of the budget increased the amount of the pre-paid rent from ~$150M (in future dollars over the life of the lease) to ~$200M to further protect the State and its taxpayers.

- **OBM:** "The 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."

  HSG Response: ***As discussed above, the State has significant remaining capacity under the existing debt policy, and there are sufficient GRF revenues to support an issuance of $600M in the contemplated stadium bonds while also taking care of other critical State priorities.***

  When applying the 5% debt service limitation to the State's 2024 GRF and Lottery revenues of $42.8B, the State can support $2.1B in annual debt service while still abiding by the debt policy. There is room for $800.6M in additional annual debt service until reaching the cap, and the ~$40M in projected annual debt service on the stadium bonds is less than 5% of this remaining amount. Furthermore, the fiscal impact from the project will not only be sufficient to repay debt service, but it also generates $1.3 billion in excess incremental revenues that will be available to the State for such other key priorities.

- **OBM:** "The projected economic impact forecast by HSG runs directly counter to decades of research and evidence about the cost and benefits of professional sports stadiums. Despite the large role sports play in the American culture, professional sports teams are modest-sized enterprises compared to the local GDP."

  HSG Response: ***This is not representative of modern sports facility-anchored development projects, and it does not reflect the reality of the proposal that HSG***

has put forth. Our project is not simply a world-class stadium that would be Ohio's first dome and the Eastern-most dome in the United States– it is a transformative ~40 acre sports-anchored mixed-use development project that will drive nearly $3B in total fiscal impact to the State and substantial year-round use, serving new tenants and attracting 2.3M annual visitors across NFL games and major events. This project represents one of the largest economic development projects ever in Northeast Ohio and the State.

A majority of the events anticipated to occur at the new domed facility 1) would require a venue larger than other facilities in the market can produce (e.g., major stadium tours, Monster Jam, etc.) and 2) could be additive to local facilities like the Huntington Convention Center. Further, a significant and disproportionate share of the fiscal impact to the State is driven by 9 large-scale events hosted at the stadium. To put this in context, Huntington Bank Stadium hosted 3 large-scale events in 2024, whereas nearby domed stadia Ford Field (Detroit), Lucas Oil Stadium (Indianapolis), and US Bank Stadium (Minneapolis) hosted an average of 10 annual large-scale events in 2023/24.

While the volume of events will admittedly fluctuate year-to-year, these results are on balance eminently achievable and in line with regionally competitive facilities, and they have been reviewed and verified by multiple independent third parties. When analyzing stops of recent major stadium tours, it becomes clear that Cleveland is losing events to surrounding out-of-state markets, primarily Detroit, Indianapolis, and Minneapolis. Out of all the NFL stadium tours during the 2023/24 period, every single one stopped in either Cleveland or Detroit, but never in both markets. And in the vast majority of cases—82%—they chose Detroit. Of the 8 concert days that Detroit will host in 2025, the State of Ohio will only see 1 show across these same tours (AC/DC PWR Up Tour). As a result, Cleveland is losing out in a competitive dynamic where major acts are treating these cities as either/or tour stops. Northeast Ohio needs a large-scale venue to compete regionally, as the current facilities are not attracting these same types of events. The Browns have the proven ability to draw out-of-market fans to Ohio for games and major events (40%+ major non-Browns event attendees from out of State; 37% of Browns fans reside outside of the team's Home Marketing Areas), especially with the new stadium being the Eastern-most domed NFL stadium in the country.

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