HB 1282

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 1282 (Delegate Griffith)
Appropriations

Economic Development - Maryland Stadium Authority - Prince George's County Soccer Stadium

This bill requires the Maryland Stadium Authority (MSA) to issue $178 million in bonds, with prior approval by the Board of Public Works (BPW) to finance the Prince George's County Soccer Stadium. A Prince George's County Soccer Stadium Financing Fund is established to pay all expenses incurred by MSA related to the stadium. The fund consists of several sources including bond proceeds, State appropriations, and other revenues. The owners of the primary professional soccer team playing in the stadium are required to pay rent for use of the stadium sufficient to contribute to the construction costs of the stadium and pay for the maintenance and operation of the stadium.

The bill takes effect June 1, 2009.

Fiscal Summary

State Effect: MSA bond proceeds raise $178 million in FY 2011 to finance stadium construction and support interest-only payments of $12.5 million in FY 2011 and FY 2012. Special fund expenditures increase by $14.7 million annually for debt service on the bonds beginning in FY 2013, supported by general fund expenditures of $7.3 million and special fund revenues of $7.3 million from contributions made by Prince George's County and the team owners.

($ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	$0	$0	-	$14.7	$14.7
Bond Rev.	$0	$178.0	$0	$0	$0
GF Expenditure	$0	$0	$0	$7.3	$7.3
SF Expenditure	$0	$0	$0	$14.7	$14.7
Bond Exp.	$0	$165.5	$12.5	$0	$0
Net Effect	$0	$12.5	($12.5)	($7.3)	($7.3)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Expenditures increase by about $3.6 million annually beginning in FY 2012 or 2013 to the extent the county agrees to make payments in support of the special fund required to finance the stadium.

Small Business Effect: Meaningful effect on small business contractors during stadium construction and later from stadium operations for vendors that benefit from additional customer traffic in and around the Prince George's County Soccer Stadium.

Analysis

Bill Summary: The bill requires MSA to (1) own a sufficient portion of the stadium or site to secure the MSA bonds issued; (2) serve as project manager overseeing construction of the stadium; (3) secure a written agreement with the county to design, construct, and equip the stadium; (4) secure a written agreement with the county and the owners of the stadium's primary professional soccer team to allocate revenue from stadium events; and (5) secure agreement with the county or owners whereby one or the other purchases land for the stadium site and either conveys or leases the land to MSA.

The bill defines the Prince George's County Soccer Stadium to include infrastructure and other property functionally related to Prince George's County Soccer Stadium, including parking lots, adjacent practice facilities, and access roads.

MSA is prohibited from hiring a contractor to design, construct, or equip the stadium without first obtaining the approval of the owners of the primary professional soccer team playing at the stadium. In addition, MSA is prohibited from encumbering any portion of the stadium or site without the prior consent of the owners, except for liens in favor of the bondholders.

MSA is required to obtain the approval of BPW for the proposed bond issue or other borrowing. Additionally, MSA must provide to the fiscal committees of the General Assembly, at least 30 days before seeking approval from BPW for any stadium related borrowing, a comprehensive financing plan for each segment of the stadium project, including (1) capitalized interest during construction; and (2) the effect of the plan on financing options for other segments of the project.

MSA must also submit an annual report of the activities and financial status of the stadium project to the Governor and the General Assembly, as well as an annual report prepared in consultation with the Department of Budget and Management and the Comptroller on the additional tax revenues generated by the stadium.

MSA is authorized to review and make recommendations on the development, construction, and financing of the stadium, including the location, design, function, level, and type of support from the private sector, special taxing sources, projected revenues, bonding authority and source of debt service, and the fiscal impact on the State of any revenue alternatives.

Current Law/Background:

Relocation of the DC United Soccer Team

The DC United soccer team is a charter member of Major League Soccer (MLS) and has been playing at the Robert F. Kennedy Memorial Stadium in Washington, DC since 1996. In 2007, DC United came under new ownership that wanted to relocate the team to a new stadium. After initial attempts to partner with the District of Columbia failed, the owners and the State began to explore locating the team in Prince George's County. Specifically, MSA, at the request of Prince George's County and with the approval of the General Assembly, contracted with an independent private consultant to develop a market and economic study.

The Market and Economic Study

In a letter to the Governor, Comptroller, and Treasurer, dated September 17, 2008, MSA presented the market and economic study as well as its recommendations. MSA recommended that Prince George's County pursue a Memorandum of Understanding with DC United outlining the terms of the stadium construction deal, including the amount of private investment, and that the county work with the team to conduct a site evaluation study and select an appropriate site for the stadium.

The consultant that developed the market and economic study summarized MLS trends, analyzed demographic and economic data, surveyed potential users of the stadium, and analyzed the characteristics and financial operations of comparable MLS stadiums in order to develop an estimate of the economic and fiscal impacts associated with the proposed stadium. The study noted that there are both market attributes favorable for generating demand in the stadium as well as market challenges inherent in locating a stadium in Prince George's County. The study estimated total incremental direct spending as a result of the new stadium at between $42.5 million and $51.9 million annually, with additional indirect spending at between $22.9 million and $28.0 million annually, and the creation of 1,080 to 1,320 new jobs. This estimate included a range of projected average annual revenues generated from stadium operations at between $26.1 million and $31.7 million annually in a stabilized year of operations.

The consultant also estimated the fiscal impact to Prince George's County and the State from locating the stadium in Prince George's County. However, this fiscal estimate only includes additional tax revenues from stadium-related spending without regard to expenditures incurred to construct, operate, and maintain the stadium.

Previous MSA Projects and Bond Issues

MSA was created in 1986 to construct and operate stadium sites for professional baseball and football in the Baltimore area. In subsequent years, MSA's role was expanded to include managing and issuing revenue bonds for convention, conference, and performing arts centers. Most recently, MSA has issued bonds for two projects: the renovation of the Hippodrome Performing Arts Center and the construction of the Montgomery County Conference Center.

In July 2002, MSA issued about $20.3 million in taxable revenue bonds for the renovation of the Hippodrome Performing Arts Center in Baltimore City, or about 32.2% of the $63.0 million total cost excluding capitalized interest. Funding for the project was provided by the State, MSA revenue bonds, Baltimore City, Baltimore County, private contributions, Hippodrome operations, historic tax credits, and interest earnings. Chapter 185 of 2000 required MSA to certify that it attempted to maximize private investment in the theatre financing, and it was required to secure at least $8 million in private financing for the project. In addition, MSA was required to secure a written agreement with an affiliate to market, operate, and maintain the Hippodrome and be responsible for operation and maintenance-related expenditures, including losses. Finally, Chapter 185 allocated any savings from acquisition or capital costs associated with the project to MSA.

Hippodrome-related debt service payments average $1.9 million annually for the 20-year term of the bond and are derived from the State's general fund subject to appropriation. More specifically, the Hippodrome is leased to the State, and subsequently, leased back to MSA. The rent paid under the lease by the State is equivalent to the debt service on the revenue bonds and is derived from the general fund. The debt service is partially offset by the $2 per ticket surcharge for events at the Hippodrome required by Chapter 185. These surcharge revenues are estimated at $839,000 in fiscal 2009, or about 44.2% of the average annual debt service payment.

In July 2003, MSA issued $23.2 million in tax-supported bonds to support construction of the Montgomery County Conference Center. Of this amount, $20.3 million represents the State's 30.7% contribution to construction costs, which totaled $66.0 million. The remaining bond proceeds fund a capitalized interest account established as part of the financing plan to fund interest-only debt service payments beginning on June 15, 2003, and continuing through June 15, 2004. Debt service payments thereafter and continuing through June 15, 2024, are paid from funds subject to appropriation by the State. The fiscal 2009 debt service costs for these revenue bonds are $1.8 million. Montgomery County contributed $13.7 million for construction and another $2.5 million for project-related enhancements.

Chapter 184 of 2000 required MSA to secure multiple written agreements with Montgomery County to specify (1) that any capital cost savings or excesses are to be shared equally; (2) that MSA and the county are tenants in common in the leasehold and are to jointly pledge the leasehold interests as security for the bonds issued; (3) that the county is solely responsible for any operating losses or profits; (4) that the county must contribute a sufficient amount to a capital improvement reserve fund to keep the conference center in first class operating condition and protect the investment of MSA; and (5) remedies and MSA's rights, on default by the county.

State Fiscal Effect: Proceeds from the issuance of bonds raise $178 million for the Prince George's County Soccer Stadium Financing Fund administered by MSA. It is assumed that the bonds would be issued in fiscal 2011 at the earliest, given the current lack of a site and financing plan. Therefore, financing fund expenditures may increase by about $12.46 million in fiscal 2011 and 2012 for capitalized interest-only payments financed by the bond issuance. Payment of principal and interest in the amount of $14.67 million begins in fiscal 2013 upon completion of the stadium and continues until 2040 for total debt service payments of $435.59 million with an estimated $257.59 million in interest payments. This estimate is based on the assumption that MSA issues 30-year bonds with an interest rate of 7%, and that the capital cost of construction is about $152 million for the stadium, which includes the cost for development of infrastructure and other functionally related property.

As noted, the total debt service over 30 years under the above assumptions is $435.59 million. This amount must be paid out of the financing fund established by the bill. The fund comprises several sources including (1) the MSA bond proceeds; (2) State appropriations; (3) revenues from any source related to the stadium, including rent contributions made by the owners and any revenues allocated under the written agreement required with the owners and Prince George's County; and (4) interest and investment income earned. The bill requires an indeterminate amount of rent from the owners for use of the stadium. Although the bill requires MSA to secure a written agreement to allocate revenues from stadium events, it does not require that any revenues be used to support the financing fund.

According to a March 11, 2009 report in *The Washington Post*, recent negotiations indicate that the team owners may be contributing 25% of the stadium-related costs. The report also indicated that the deal may need to be amended to require Prince George's County to sell bonds in an amount equal to about 25% of project costs. In the absence of details in the bill as to the allocation of costs, as was provided in previous legislation for MSA projects, this estimate assumes that the county and team owners will each contribute 25% of annual project costs. Thus, the remaining 50% of total project costs is supported by general fund expenditures for debt service of about $7.33 million annually beginning in fiscal 2013, or $217.80 million over the 30 years in which MSA bonds are outstanding.

General fund revenues may be generated from the increase in collection of sales and use, personal income, and corporate income taxes due to the stadium. Using the low-end estimate of projected State tax revenue from the consultant's market and economic study, general fund revenues may increase by about $3.13 million annually beginning in fiscal 2012. This estimate only accounts for the increase in general fund revenues; Transportation Trust Fund revenues may also increase by $129,321. These general fund revenues may partially offset the general fund debt service costs.

Local Fiscal Effect: Assuming that Prince George's County covers 25% of the total project cost each year, county expenditures may increase by about $3.6 million annually beginning in fiscal 2012 or 2013 for debt service payments.

Prince George's County revenues may increase by between $1.83 million and $2.23 million from the collection of additional admissions and amusement taxes, hotel and motel taxes, and personal income taxes. Revenues may increase further beginning in fiscal 2012 under the revenue allocation agreement to the extent that any additional revenues are allocated to the county.

Additional Comments: The Department of Legislative Services and the State Treasurer's Office advise that the MSA bonds issued under the bill fall within the State's debt affordability measures. In order to service the debt on the MSA-issued bonds from the financing fund established by the bill, a State appropriation is required, which would therefore characterize the debt as State-supported.

Additional Information

Prior Introductions: None.

Cross File: SB 1020 (Senators Muse and Currie) – Rules.

Information Source(s): Prince George's County, Board of Public Works, Department of Budget and Management, Department of General Services, Maryland Stadium Authority, Crossroads Consulting Services, *The Washington Post*, Department of Legislative Services

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