Should Taxpayers Subsidize Private Facilities in Hampton Roads? Glitz vs Reality

SHOULD TAXPAYERS SUBSIDIZE PRIVATE FACILITIES IN HAMPTON ROADS? GLITZ VS REALITY

"A great city is that which has the greatest men and women."
Walt Whitman

What is it that makes a city or region "great?" What defines a city or region as being legitimately "big time" and presumably makes it a desirable place to live? Is it a large population? Its economic and political clout? Amenities? Facilities? Tall buildings? Orchestras and museums? Climate? Attractive scenery? People?

Many of our public leaders often act as if they know the answers to these questions. By their decisions and advocacy, they provide us with their perceptions of those answers. Often, their decisions tell the tale — they believe the presence or absence of substantial public buildings, stadiums, casinos, museums, shopping centers and entertainment complexes are the "must have" elements of a great city or region. If such things are present and provide citizens with the ability to boast about them, the city or region in question is "big time."

Likewise, if these things are absent, the city or region is assumed to be somewhat of a backwater. In this way of looking at the world, having a major league sports team, large entertainment venues, and other highly visible amenities are signs of success. Likewise, the absence of such facilities is a signal that the city is "falling behind" its competitors. If we build it, to paraphrase a popular movie, jobs and new residents will come. If we don't, jobs and people will flee in search of somewhere with these amenities.

We hasten to point out that those who believe that facilities make a city are to some degree correct. A positive correlation often exists between large public buildings and "big time" recognition. Nevertheless, the argument that such features are the secret to being recognized as a "big time" city or region has some notable holes. The first is that there is little or no connection between professional sports stadiums, casinos, and large concert venues and conventional measures of economic well being. There is sparse or even zero evidence that the presence of major league sports franchises exerts any positive effect on home prices, per capita incomes, net migration rates, or rates of economic growth.[1] Despite these facts in evidence, large public investments in stadiums or similar entertainment venues are increasingly common, often extracted by implicit or explicit threats to move to a more receptive location if demands are not met.

Second, investment of public resources in such enterprises, while popular with fans and those who stand to profit for their development and operation, may crowd out other public investments. If a city or region chooses to subsidize the development of a stadium or concert venue, it will have fewer dollars to spend on roads, K-12 education, and public health. The same tax dollar cannot be spent twice. The benefits from these less visible expenditures are more spread out across the community but generally offer significantly higher rates of return. To put it simply, choices must be made, and, in some cases, decision makers choose facilities that yield fewer benefits to taxpayers.

1 See, among many, Kevin J. Delaney and Rick Eckstein, *Public Dollars, Private Stadiums* (New Brunswick, NJ: Rutgers University Press, 2003) and Paul Oyer, *An Economist Goes to the Game* (New Haven, CT: Yale University Press, 2022).

In this chapter, we examine the arguments surrounding public investments in these highly visible facilities. We pose questions that should be asked when considering such investments and explore the potential opportunity costs of these projects. We offer a cautionary tale that such projects are sold as transformative but often fail to generate the promised benefits.

What Questions Should We Be Asking?

When city and regional leaders consider using public funds to, in effect, subsidize the construction (and sometimes, operations) of sports stadiums, resort parks, and similar projects, there are hard questions to ask. First, and foremost, who will patronize these facilities? Will many of the visitors come from inside the region or will the new stadium, park, or venue attract a significant number of visitors from outside the local area? We ask this question because of the simple observation: the same dollar cannot be spent twice at the same time.

If many of the patrons of these facilities come from inside the locality in question, then the economic impact of their spending will be close to zero. Consider a resident of Portsmouth that decides to patronize the new casino for entertainment and dinner in Portsmouth. The resident, given that they have only so many dollars to spend, must shift their spending from other establishments. In other words, the dollars spent at the casino are dollars not spent elsewhere in the city.

Expenditure displacement is the label economists and other analysts attach to the switching phenomena just described. Expenditures that are displaced from one business to another in Portsmouth do not register any net economic gain for the city. But, let's say, the resident in question used to go to Virginia Beach and now dines and gambles in Portsmouth? On the surface, Portsmouth "wins" and Virginia Beach "loses," as spending shifts from one city to another. However, if we zoom out to the regional perspective, the net economic impact is still close to zero as the spending merely moves from one city to another in the region.

Expenditure displacement is one reason that many economic impact studies either focus on localities or assume that there will be an influx of visitors from outside the region. Focusing on city-level impacts allows one to make the argument that there will be an influx of "new money," but this spending may be largely drawn from other localities in the region. In other words, from a regional perspective, one is "robbing Peter to pay Paul" as spending is largely recycled within the region.

The second question is whether the new venue or facility will attract visitors from outside the region. Visitors from outside the region bring in "new money" which increases the economic impacts associated with the new facility. Proponents correctly argue that cities and counties can levy additional taxes on these visitors, in effect, exporting these taxes. A professional sports stadium, for example, could spur economic growth if it lured in visitors who, in turn, consumed local goods and services. However, there is little evidence to support these arguments.[2] Overly optimistic projections of visitors from outside the local area bias projections of economic impact upward and understate the costs to taxpayers over the lifecycle of the project.

The third question, and often one glossed over in presentations of a new stadium, concert venue, or outdoor sports park is what happens if plans fail to come to fruition? Who becomes responsible for the stadium or venue when a professional sports team doesn't come to the area or, if one does come, and then leaves for another city that offers even more incentives? When the National Football League approved the Rams' request for relocation from St. Louis to Los Angeles in 2016, Missouri taxpayers continued to be responsible for $144 million in debt and maintenance costs.[3] At least St. Louis still had a venue. Seattle and Philadelphia, on other hand, continued to make debt payments for more than a decade after the Kingdom and Veterans Stadium were torn down, respectively. This is a familiar refrain; taxpayers are left

2 Roger Noll and Andrew Zimbalist (1997). "Sports, Jobs, and Taxes: The Economic Impact of Sports Teams and Stadiums." Washington, DC, Brookings.
3 https://www.reuters.com/article/us-sports-nfl-stadiums-insight-idUSKCN0VC0EP

"holding the bag" even if the reason for the accumulation of public debt has left town.

These questions may become even more difficult if the facility in question depends on the weather. One only needs to walk the beaches around Hampton Roads in January to understand why the summer months are when money is made for the hospitality and tourism industry. Seasonality means that, unlike an indoor casino or entertainment venue, that there may be only 4 to 6 months a year when the facility is able to host events and attract visitors. Seasonality also may mean that patronage shifts even more towards residents in the off-season months, further eroding the potential economic impact of a facility.

It is instructive to look at the economic impact (or lack thereof) that professional sports teams make on their communities when the cities or regions invest in new stadiums, or when they make financial commitments to lure these teams to relocate. The accumulated evidence in this regard tells us that the typical professional sports team makes no visible difference in its home area's economic growth rate, or upon per capita incomes in that region, or in the prices of that region's real estate.[4] In other words, researchers were unable to find any statistically significant effect when examining the data on stadiums, growth, income, and other measures of economic performance. The most recent survey bluntly concluded that "*... the large subsidies commonly devoted to constructing professional sports venues are not justified as worthwhile public investments.*"[5]

Does Pride Really Count for Something?

A 2022 survey of the literature relating to professional sports team stadium subsidies revealed that between 1970 and 2020, state and local governments devoted $33 billion in public funds to assist in the construction of major league sports facilities in the United States and Canada.[6] A recent example in point: in 2022, the State of New York and Erie County, New York pledged an estimated $850 million to fund the construction of a new $1.4 billion stadium for the Buffalo Bills.[7] The Oakland Athletics, at the time of writing, continued to seek public funds to subsidize the construction of a new stadium. When attempts to extract more public resources from Oakland failed, the team announced that they would be moving to Las Vegas.[8] The Tampa Bay Devil Rays may not be far behind, reportedly up for sale and looking for "something new" as the lease on their current stadium expires after the 2027 season.[9]

The Washington Commanders NFL team continues to implore the Commonwealth of Virginia to subsidize the move of franchise from its current location in suburban Maryland to a location in Northern Virginia. In 2022, even with another losing record, the Commanders reported a net operating income of $130 million. This is a remarkable financial performance given that the *Washington Post* has reported recently that the Commanders were suffering from "plummeting popularity." No less than 48% of avowed Commander fans indicated that they were "less interested" in the team than they had been in the previous decade.[10] Declining fortunes on the field and fan interest appeared to have little impact on the value of the franchise. In May 2023, the Commanders were sold to a group of investors for a reported $6.05 billion, a deal that set an NFL record for the most expensive sale in league history.[11]

4 J Bradbury, John Charles and Coates, Dennis and Humphreys, Brad R., The Impact of Professional Sports Franchises and Venues on Local Economies: A Comprehensive Survey (January 31, 2022). *Journal of Economic Surveys*, forthcoming, available at SSRN: https://ssrn.com/abstract=4022547
5 Bradbury *et al.* in their Abstract.
6 John Charles Bradbury, Dennis Coates, and Brad R. Humphreys, "The Impact of Professional Sports Franchises and Venues on Local Economies: A Comprehensive Survey," *Journal of Economic Surveys* (forthcoming).
7 Jesse McKinley, "Public Foots Most of the $1.4 Billion for a Stadium. Buffalo Fans Cheer." *New York Times* (April 16, 2022), www.nytimes.com/2022/04/16/nyregion/new-buffalo.
8 Matt Snyder, "Oakland to Las Vegas: A's move could be held up over request for nearly $400M in public funding, per report." (May 18, 2023). https://www.cbssports.com/mlb/news/oakland-to-las-vegas-as-move-could-be-held-up-over-request-for-nearly-400m-in-public-funding-per-report/
9 Ken Rosenthal and Chandler Rome, "Rays have potential buyers, both local and for relocation, interested in franchise: Sources." (May 21, 2023). *The Athletic*. https://theathletic.com/4538457/2023/05/21/tampa-bay-rays-potential-sale-interest/
10 Rick Maese and Scott Clement, "Commanders' potential sale comes amid plummeting popularity, poll finds," *Washington Post* (March 28, 2023), www.washingtonpost.com/sports/2023/03/28/commanders-poll-popularity-sale.
11 Mark Maske and Nicki Jhabvala. "Josh Harris has a signed, exclusive deal with Daniel Snyder for Commanders." *Washington Post* (May 12, 2023). https://www.washingtonpost.com/sports/2023/05/12/josh-harris-dan-snyder-commanders-deal/

The record-setting deal for the Washington Commanders occurred even though there were numerous allegations of impropriety swirling around the franchise. The Commanders were fined by the NFL in 2021 for operating a "highly unprofessional" workplace that permitted "bullying and intimidation" of women employees.[12] In November 2022, D.C. Attorney General Karl Racine filed a consumer protection lawsuit against the Washington Commanders, franchise owner Daniel Snyder, the NFL, and Commissioner Roger Goodell, accusing them of colluding to deceive and mislead customers about an investigation of the team's workplace culture. A second lawsuit followed soon thereafter alleging the team "prioritized its own revenues over fairness and deceived District consumers by wrongly withholding their security deposits that should have been automatically repaid under consumers' contracts, and improperly using those deposits for the Team's own purposes."[13] Whether or not the allegations or borne out in court, one thing is for certain, there was little impact on the franchise value.

With a sale, for all intents and purposes, being approved prior to the start of the 2023 NFL season, the question is why would the team now seek out public funds for a new stadium? The team's current lease at FedEx Field in Landover Maryland expires after the 2027 season. This opens a window of opportunity for the team to relocate. Alas, new stadiums, are expensive. Suppose the Commanders' heart is set on a new stadium that would cost $2.0 billion. If the franchise devoted $120 million of its current annual operating income to paying for a new stadium, and borrowed the $2.0 billion at 6%, then it would take approximately 30 years for it to pay off the new $2.0 billion facility. Suffice it to say that the Commanders have a strong financial incentive to have some other party — a collection of governments, perhaps — assume much of this financial burden.

The Virginia General Assembly has devoted time and attention to the situation relating to the Commanders during every recent legislative session. Legislators act as if they are unaware of the propensity of professional teams to move (leaving the previous host state high and dry with empty facilities) and the gap between projections of economic impact and what materializes once the professional stadium is built. There is a stark lesson here for local decision makers: ask what would happen if the investors who occupy the new stadium, sports complex, entertainment park, or venue decide it's time to move on. Who is left holding the debt and responsibility for a facility that now lies empty?

Threats made by professional sports teams and/or entertainers that "we will leave town" constitute a time-honored negotiating technique. Witness the Richmond Flying Squirrels minor league Class-Double AA baseball team explicitly saying that it will leave town if the city does not complete a new $80 million stadium that "meets major league standards" prior to the 2025 deadline the team has set.[14] Richmond's Mayor, Levar Stoney, probably unwisely replied that the Squirrels "aren't going anywhere" because the "city plans to deliver on its promise of a new facility before the deadline."[15] Unwise? Yes, because that is precisely the reaction the Flying Squirrels ownership hoped to elicit. In fact, if the City of Richmond wishes to negotiate the best deal for the city, then it must adopt a different negotiating stance and be prepared to lose the team to another more generous city.

Further, the City of Richmond baseball venture suffers from a disease that seemingly afflicts all similar public projects — cost inflation. Originally billed as a $50 million expenditure, the estimated cost ballooned to $80 million, and the latest rendition is priced at $110 million.[16] The new Diamond will be part of an ambitious $2.4 billion mixed-used development. City leaders previously promised that the stadium development would be accomplished "without costing taxpayers."[17] Observing all this, the *Richmond Times-Dispatch* editorial

12 Will Hobson, Mark Maske, Liz Clarke and Beth Reinhard. "NFL fines Washington Football Team $10 million; Tanya Snyder to run operations for now." *Washington Post* (July 2, 2021). https://www.washingtonpost.com/sports/2021/07/01/daniel-snyder-nfl-fine-sexual-harassment-investigation/
13 Mark Maske and Nicki Jhabvala. "D.C. attorney general files second lawsuit against Commanders," *Washington Post* (November 17, 2022). https://www.washingtonpost.com/sports/2022/11/17/dc-attorney-general-washington-commanders/
14 Em Holter, "Stoney: Flying Squirrels aren't going anywhere," *Richmond Times-Dispatch* (April 19, 2023), https://richmond.com/news/local/government/politics/richmond-flying-squirrels-mayor-levar-stoney-the-diamond/article_25f8c942-de2b-11ed-9bdc-3bf6c7338307.html.
15 Em Holter.
16 "Opinion: Want a new stadium? Make it a regional effort," *Richmond Times-Dispatch* (April 23, 2023), To build a new ballpark, Richmond needs a regional approach and "Opinion: Richmond Stadium Proposal Raises More Questions Than It Answers," Richmond Times-Dispatch (April 30, 2023),
17 *Richmond Times-Dispatch* (April 23, 2023).

board wisely noted that "Sports stadiums are money pits" and that there were opportunity costs associated with the project — the same well-located land would generate "millions in tax revenue for the city" if it were used for commercial purposes other than the baseball park.[18] The editorial board generated an empirical example that supposed the City of Richmond would borrow the entire $80 million (one of the originally cited cost estimates) at 5.0% interest and concluded that the project was burdened by "tricky math."[19] If the math was tricky at $80 million, then it was all the more so at the most recently cited price of $110 million. Part of the editorial board's disdain for the financial aspects of the project was based upon the City's intent to borrow $20 million from one of the project's developers and pay the developer 8.0% interest — not exactly borrowing money at municipal bond rates, which in early May 2023 were hovering at about 2.5% for an AAA rated ten-year bonds.[20]

However, the *Times-Dispatch* Editorial Board was not finished, and wrote yet another lengthy editorial that opined that the "stadium proposal raises more questions than answers."[21] The newspaper noted that the cost of the enterprise continued to inflate, the precise means of paying for the new facility were not clear, and there might be much better alternative uses for the many of the 179 acres of land in question. Meanwhile, the city has agreed to pay $3.5 million for repairs and improvements to the existing Diamond facility even though it may soon be demolished.[22]

Why Do Governments Subsidize Venues?

The reasons for governmental financial generosity where major league sports franchises are concerned are complex and go beyond the usually fallacious belief that paying for a stadium is a good public economic investment. Non-economic motives often appear to matter, that is, public leaders often proclaim that local or regional "pride" or "standing" is at stake. Of course, estimating the monetary value of such feelings is impossible and that may be why non-economic arguments are the fallback position when the economic calculus is not in favor of public subsidies. Proponents that such investments will bolster local or regional pride fail to recognize that, in some cases, pride goes before a fall.

History is replete with non-economic arguments in favor of public subsidies for sports stadiums and similar types of venues. In March 2023, Wisconsin Governor Tony Evers introduced a proposal involving the Milwaukee Brewers that will result in that state investing $300 million in improvements for the Brewers' retractable roof American Family Stadium, which itself originally was constructed with public tax funding. Improving the stadium, it was said, would "ensure [that] Major League Baseball is preserved in our state for the next generation."[23] The pride of being associated with professional baseball appeared to loom large in the mind of the Governor and his supporters, even though the Associated Press story covering the initiative noted that "Numerous economic studies have shown that public stadium financing is a bad deal for many communities."[24]

In return for the subsidy, the Brewers pledged that they would lease the improved stadium facility until 2043. Insofar as public investments in stadiums are concerned, $300 million is a small number. Most stadium projects cost much more. But even this more modest subsidy provokes an obvious question

18 *Richmond Times-Dispatch* (April 23, 2023).
19 *Richmond Times-Dispatch* (April 23, 2023).
20 FMS Bonds, Inc., "Municipal Market Yields," AAA Rated Muni Bonds, www.fmsbonds.com/market-yields.
21 *Richmond Times Dispatch* (April 30, 2023).
22 Em Holter, "Richmond moves closer to finalizing Diamond deal," *Richmond Times-Dispatch* (May 2, 2023), City Council pushes forward on Diamond deal (richmond.com).
23 Associated Press, "Governor Wants to give Brewers nearly $300M to repair stadium," www.espn.com/mlb/story/_/id/35657048/governor-wants-give-brewers-nearly-300m-repair-stadium.
24 Associated Press.

— why couldn't the Brewers have paid for this improvement themselves? *Forbes Magazine*, which annually estimates the value of major league professional sports franchises, reported that the value of the Brewers rose from $562 million in 2012 to $1.28 billion in 2021.[25] Earlier, in 2015, the State of Wisconsin agreed to pay the Milwaukee Bucks National Basketball Association team $250 million to help build a new arena after the team's owners had threatened to leave. Somewhat ironically, during the same year, Governor Scott Walker signed legislation that reduced state support for public higher education in Wisconsin by $300 million.[26]

It is fair to observe that the reasons for governmental financial generosity insofar as major projects are concerned frequently relate to subjective factors such as a city's or region's image and normatively whether a city or region is perceived to be a good place to live. Such investments therefore often are described as being transformational and literally moving a city or region from a lower to higher tier of status. Hampton Roads is no exception. Whether it is statements about the transformative impacts of casinos, water parks, or stadiums, local decision makers in Hampton Roads often appeal to local or regional pride. What is absent from the conversation is the recognition that public subsidies often crowd out other, less visible projects today and in the future. There is, as the saying goes, no such thing as a free lunch.

Hampton Roads can learn from the experience of other cities and states. If there is a strong business case for a sports stadium, sports park, or entertainment venue, then investors should be able to tap into financial markets. The San Francisco Giants serve as an example. Voters rejected public financing of a new stadium four times before the team decided that the only way to build a new stadium was to do so privately.

The new stadium cost $315 million, of which about $140 was raised by sponsorships and other deals. The Giants borrowed the remaining $170 million and paid off the 20-year mortgage in 2017.[27] San Francisco provided tax abatements and upgraded the infrastructure around the stadium, but taxpayers are much better off than other localities that provided similar incentives AND subsidized the construction of a new stadium (or in some cases, stadiums). We recognize that such ventures might require incentives but prefer taxpayers not to be raked over the proverbial coals in the pursuit of venues with dubious long-term benefits to the region in terms of economic growth.

Tax Increment Financing: A Solution that Works.

Our analysis to this point has focused upon examples coming from the realm of professional sports. This largely reflects the availability of data. Subsidies to professional sports teams usually are widely publicized and the approximate values of their franchises are known because of the reporting of *Forbes Magazine*. This renders it possible to calculate whether a specific public investment relating to a sports team has been worthwhile. The same data often are not available for other governmental investments such as roads, transit, schools, and public safety that benefit private firms and individuals.

In fact, cities often construct infrastructure, apply special tax rates, and utilize a strategy generally referred to as "tax increment financing." Tax Increment Financing (TIF) is a mechanism by which a portion of real estate taxes generated within a specific district are used pay for public improvements within the district's boundaries. A key feature of a TIF is that property owners pay no greater rate than the prevailing locality rate.

25 *Forbes Magazine*, "The Business of Baseball," www.forbes.com/mlb-valuations/list/#tab:overall.
26 Paul Oyer, *An Economist Goes to the Game: How to Throw Away $580 Million and Other Surprising Insights from the Economics of Sports*. New Haven: Yale University Press, 2022, at 141.
27 Craig Calcaterra, "The AT&T Park mortgage is paid off," *NBC Sports* (February 23, 2017), https://mlb.nbcsports.com/2017/02/23/the-att-park-mortgage-is-paid-off/

To understand how a TIF operates, we first must define the geographical area (the "district") and the base year of the TIF.[28] The base year establishes the "base assessed value" of real estate within a district in the year preceding the ordinance creating the district. Each year, the real estate assessor will update the "current assessed" value of property within the district. Any taxes received from the lower of the base or current assessed value remit to the locality's general fund. For example, if the booked assessed value was $250 million and the currently assessed value was $225 million, then the taxes levied on the currently assessed value would not flow into the general fund.

On the other hand, any real estate taxes received from when the current assessed value is higher than the booked assessed value result into a flow of revenue into the district fund. If, for example, the booked assessed value was $250 million and the current assessed value was $300 million, then the revenue for the booked assessed value would flow to the general fund while the **incremental taxes** resulting from the $50 million in increased value of property would flow into the district's fund.

The fund, in most cases, can only be used to pay for "development project costs" and to secure and service debt for improvements within the locality. In other words, the locality can issue bonds to fund public improvements that are tied to the incremental revenue of the district. If, as noted by the *Code of Virginia*, there are "surplus funds," these funds are retained in the district fund. If all the obligations of the district are fulfilled, a portion or all of the surplus may be transferred to the city or county budget. [29] A locality may also choose to dissolve the TIF when all its obligations or commitments have been paid.

TIF Districts are nothing new to Hampton Roads. Chesapeake, for example, has two TIF Districts: Greenbrier and South Norfolk.[30] Let's dive briefly into the operations of the Greenbrier TIF, which was created in 2004 to support the activities of one of the larger mixed-used development areas in Hampton Roads. During the 2021 Fiscal Year (FY), the Greenbrier TIF generated approximately $11.9 million in revenue for the district fund, of which $1.3 million was used for debt service, about $1 million for economic development activities, $2.8 million was transferred to schools, and $ 1.3 million was sent elsewhere. At the end of FY 2021, the Greenbrier TIF District fund had approximately $12.8 million on hand.

In Virginia Beach, the Sandbridge community consists of nearly five miles of beachfront property and is a major tourist attraction. The city created the Sandbridge Special Service District (SSD) in 1995 as a means of providing financing of beach and shoreline management within the district. Revenue for the Sandbridge SSD comes from a real estate surcharge, supplemental lodging taxes, plus parking and other miscellaneous revenues.

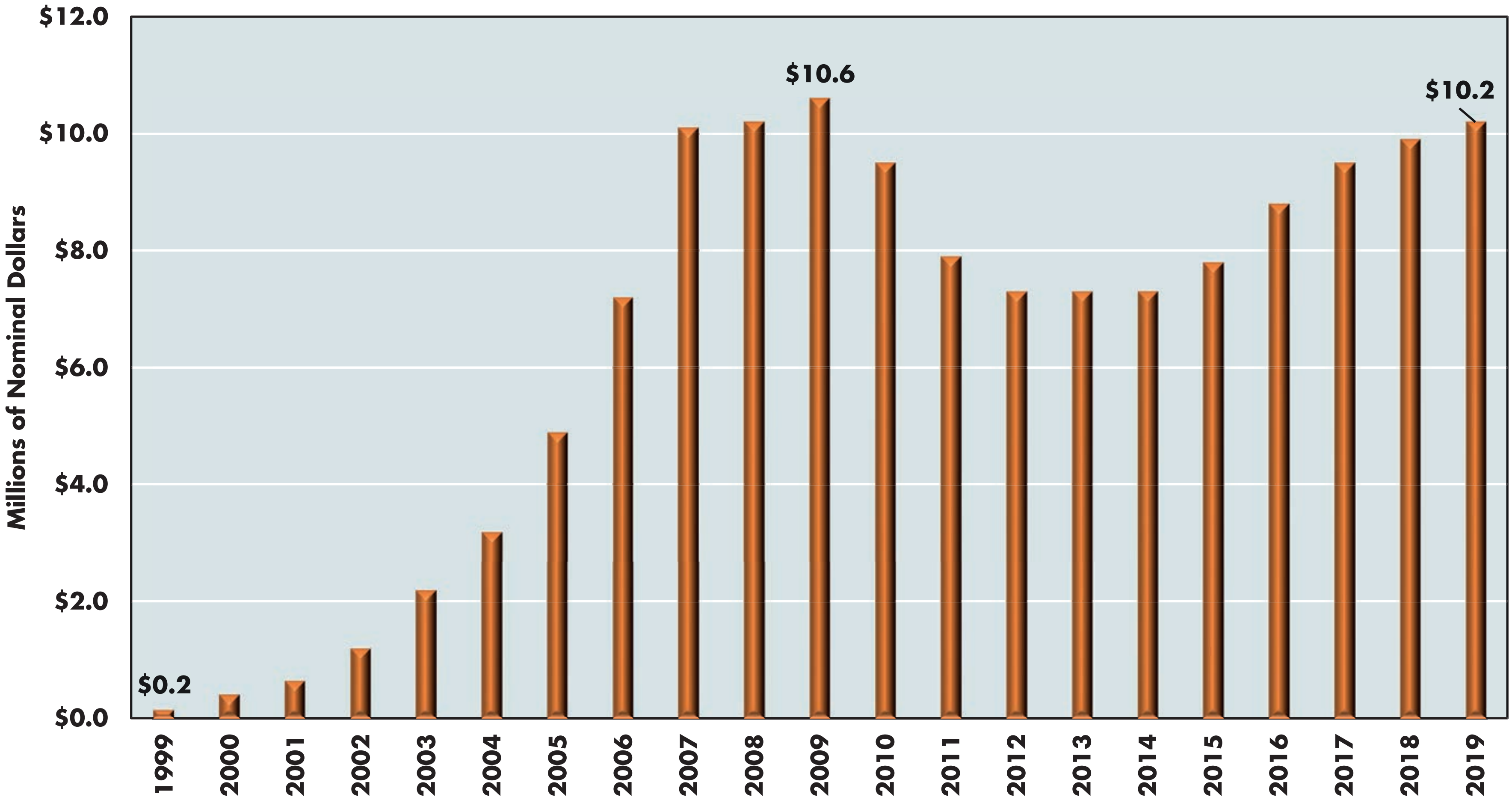
Virginia Beach created the Sandbridge TIF District on December 1, 1998 to provide funding in addition to that provided by the Sandbridge SSD. The City created the TIF to fund projects related to the "construction, maintenance, nourishment, and restoration of the public beach and shoreline in the Sandbridge District." [31] Virginia Beach established the booked assessment value as equal to the real estate assessment in FY 1998. The booked assessment value for the Sandbridge TIF was set at $206.1 million. As the real estate values rose in the Sandbridge TIF District, taxes levied on the incremental gains flowed into the district fund (Graph 1). Again, we note these revenues are derived from the incremental gains in assessed values since the base year. Revenues from the booked assessed value continue to flow into the city's general coffers to this day.

The important question at hand is whether the development around the Greenbrier district in Chesapeake or Sandbridge district in Virginia would have occurred in the absence of a TIF? In all likelihood, the answer is a qualified "yes." Development would have still occurred, but public improvements fostering the development (or beach replenishment) would have not likely occurred as quickly.

28 Code of Virginia, § 58.1-3245.2 "Tax Increment Financing".
29 *Code of Virginia*, § 58.1-3245.4. Issuance of obligations for project costs.
30 City of Chesapeake, Tax Increment Financing Districts Summary, Approved Capital Improvement Program, FY 2023 – FY 2027. https://www.cityofchesapeake.net/DocumentCenter/View/298/FY-2023-to-2027-Approved-Capital-Improvement-Program-PDF
31 Lyndon S. Remias, "Audit of the Sandbridge Tax Increment Financing and Sandbridge Special Service District Funds" (March 12, 2020), www.vbgov.com/government/departments/city-auditors-office/Documents/Audit%20Reports/20200313-AUD-Audit%20of%20Sandbridge%20SSD%20and%20TIF-FINAL%20REPORT.pdf.

GRAPH 1

SANDBRIDGE TAX INCREMENT FINANCING DISTRICT REVENUES
1999-2019



Source: Virginia Beach, Office of the City Auditor, "Audit of the Sandbridge Tax Increment Financial and Sandbridge Special Service District Funds," March 13, 2020.

A 2020 report by Lyndon S. Remias, City Auditor for the City of Virginia Beach, revealed that property values in the Sandbridge area in 2019 were lower than they were in 2011, but the funds generated by the district had paid for beach replenishment in the form of sand placed on beaches that had eroded. Overall, the Sandbridge TIF District was viewed as a success. Without it — implying a world in which landowners would have to address beach erosion on their own — it is quite doubtful that beach nourishment would have occurred at the level observed. Yet reality is that the TIF District redirected tax dollars that otherwise would have gone into the city's general fund. The argument for this particular district is that except for this redirection, and the sand replenishment that it supported, Sandbridge might have withered, and hence the City would have been suffered from sharply reduced tax dollars in that area of the City.

Two non-controversial conclusions can be drawn about the Sandbridge TIF District. First, as result of the TIF and sand replenishment, Sandbridge has flourished, and private property owners have benefitted. Second, consequently, the City of Virginia Beach likely collected tax revenues that otherwise it would have lost.

We focus on the Sandbridge TIF District because it is an apparent success story. But this is a success story that inspires questions. Can the Sandbridge results be generalized? Those who advocate public subsidies of private activities often argue that this is the case. And tax increment district financing has been used with apparent success multiple times across Hampton Roads. Witness the use of tax increment financing as one tool to spur the development of Virginia Beach's Town Center. Apparently, more than 80% of the funds used to develop Town Center came from private sources and the TIF district was vital in priming the pump to generate those investments. It would seem there is a strong rationale for a TIF to support development activities, but this does not mean we should avoid asking the hard questions.

Yet every instance is different, and one must ask the relevant questions every time. First, will the public subsidy produce measurable gains that make this investment worthwhile when its revenues and costs are discounted at a realistic rate of interest? Second, is the distribution of gains between the private participants and the public appropriate? Third, how are the risks of this venture being shared? Fourth, and related to the previous point, to what extent do the private parties involved in the deal have the ability to back out of a project and leave the public stranded?

Are these hard questions? Undoubtedly. Yet these are questions worth asking whether the locality is Virginia Beach and the Atlantic Park project or Norfolk and the proposed casino development. If nothing else, asking these questions and publicly disclosing the data improves transparency and accountability for taxpayers whose funds are being spent in support of these ventures.

Final Thoughts

We must not leave this topic without noting there is no sense of mystery about characteristics of great cities. Yes, they do boast attractive, even iconic facilities and attractions. Who does not associate the Empire State Building and the Statue of Liberty with New York City? But where do the New York Giants and New York Jets play their National Football League home football games? At MetLife Stadium in East Rutherford, New Jersey. This is an object lesson that stadiums and large public venues do not a great city make.

What does New York City have that East Rutherford does not? A huge financial economy that features banks, insurance companies, and the New York Stock Exchange. World-class universities including Columbia University and New York University. Renowned medical and health complexes. An unmatched cultural and artistic scene. The United Nations and so on.

The point is that entertainment venues, stadiums and the like seldom are the fuel that makes cities and regions great. Such amenities complement the vital ingredients but do not constitute the vital ingredients themselves. When cities and regions decide that buildings are the things that make them great, they are often on the wrong path. Sometimes, the splashy new stadium, or park turns into an anchor as teams and tastes move on. One only needs to look at NASCAR to see how interest in a sport can rise and fall, leaving locales with underutilized facilities (or tracks not being used at all).

Based upon accumulated economic research and the experiences of other cities and regions (and remembering Walt Whitman):

- Attract and retain very high-quality K-12 public school teachers
- Ensure high speed fiber optic access throughout the city
- Support apprenticeships and internships
- Expand higher education capacity, especially in scientific, technology, and health fields
- Provide financial sustenance and seed monies to scientific and technology entrepreneurs
- Partner with the newly merged ODU/EVMS institution to attract new talent

Are these investments as exciting as luring a new sports team or entertainment park to the region? Perhaps not, but these are recommendations that build the foundation to attract and retain talent. The region cannot grow its key industry clusters without people, and people follow jobs not stadiums or parks. If the private business case exists, we opine, let the investors pay for the venue. If needed, the city or county can create a TIF to fund infrastructure improvements because the TIF is based on gains on value, which, if the business case is strong, will happen when the venue is built and operating. Perhaps this is not the most appealing argument for local and regional pride, but it is one that protects taxpayers' pocketbooks.