FINAL REPORT OF THE JOINT SUBCOMMITTEE STUDYING

FINANCING OPTIONS FOR THE PURPOSE OF CONSTRUCTING A BASEBALL STADIUM IN VIRGINIA

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 7

COMMONWEALTH OF VIRGINIA
RICHMOND
1997

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Senator Richard L. Saslaw, *Co-Chairman*
Delegate Alan A. Diamonstein
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Delegate William P. Robinson, Jr.
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Final Report of the Joint Subcommittee Studying Financing Options for the Purpose of Constructing a Baseball Stadium in Virginia

To: The Honorable George Allen, Governor of Virginia
and
The General Assembly of Virginia

Richmond, Virginia
July 1996

I. INTRODUCTION

Adopted by the 1996 Session of the General Assembly, HJR 223 and SJR 101[1] establish a joint subcommittee to examine financing options for the purpose of constructing a baseball stadium in Virginia. The resolutions provide for a joint subcommittee of 13 members, including four members of the House, with expertise in appropriations, three members of the Senate, with expertise in finance, two representatives of local government to be appointed by the Speaker of the House, two citizens of the Commonwealth, one to be appointed by the Speaker of the House and one to be appointed by the Senate Committee on Privileges and Elections, and two members of the Virginia Baseball Stadium Authority to be appointed by the Speaker of the House, upon the recommendation of the Authority.

Pursuant to HJR 223 and SJR 101, the subcommittee was charged with the responsibility of considering the appropriate roles for state and local government and the private sector, possible revenue sources, and the costs to state and local government and to submit its findings and recommendations to the Governor and the General Assembly by July 1, 1996.

II. BACKGROUND

During the 1992 Session, the General Assembly enacted legislation creating the Virginia Baseball Stadium Authority ("the Authority").[2] In creating the Authority, the legislature acknowledged the fact that the acquisition of a major

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[1] See Appendix A.
[2] 1992 Acts of Assembly, Chapter 823.

league baseball franchise would be an economic development opportunity for the state and provide recreational benefits for the citizens of the Commonwealth as well.

The Authority was vested with powers to site, build and finance a new baseball stadium, including the power to issue bonds necessary to finance construction of the stadium.[3] In July 1995, Governor George Allen appointed the members of the Authority so it could embark upon its mission.

In 1994, several dozen investors formed a group called the Virginia Baseball Club ("the VBC") for the primary purpose of securing a major league baseball franchise for Virginia. The group participated in the first-round of a major league baseball expansion in 1994. The first round in the expansion process would include two new teams to begin play in 1998; the second round would have two new teams scheduled to begin play in the year 2000. In March 1995, Major League Baseball ("MLB") awarded one new franchise to the Tampa-St. Petersburg, Florida area and another to Phoenix, Arizona. MLB has publicly stated its intention to award the "round two" expansion teams in 1997.

Following MLB's decision on first-round expansion awards, the VBC negotiated an "agreement-in-principle" to purchase the Houston Astros and relocate them to the Commonwealth of Virginia for the 1996 season. This "agreement-in-principle" was not approved by the Executive Council of MLB for several reasons, including the fact that the Astro's owner did not appear to abide by MLB sale and relocation rules. However, the VBC notes that a key factor in their failure to obtain a first-round expansion team or in securing a deal with the Houston Astros and MLB was the lack of a viable stadium financing plan.

If Houston's lackluster support for the Astros continues through the 1996 season, its owner is expected to re-file for a sale and relocation before the 1997 season. MLB is also unlikely to allow a franchise to remain in a city where it continues to lose money. Furthermore, MLB is expected to announce its timetable for the second-round of expansion during late 1996 or early 1997. Clearly, the opportunity for an investment group to secure an existing or expansion franchise is fast approaching and the time-horizon is rather short. The events that transpire over the next 8-10 months could determine whether Virginia, the most populous state in the country without a major league franchise, will secure a major league baseball team for itself.

[3] Va. Code § 15.1-227.75.

III. ECONOMIC IMPACT OF BASEBALL IN VIRGINIA[4]

To date, there are three studies that have been prepared assessing the economic and fiscal impacts of a major league baseball stadium in Northern Virginia.[5] All three indicate that the construction of a stadium and the operation of a major league baseball franchise would have a positive economic impact on the regional and state economy. Accordingly, such an endeavor should be viewed as an economic development initiative. While the employment and income impacts will initially focus on the host locality and the immediate vicinity, much of the resulting fiscal benefit will accrue to the Commonwealth through enhanced sales and income tax revenues.

Spending on construction and any needed infrastructure will result in economic and fiscal impact, even before the first game ball is thrown out. Such outlays, over a two-year construction period, would inject into the Virginia economy approximately $137 million in direct spending, create 1,000 jobs, and result in $32 million in new wages. Direct spending activity would result in an estimated $6 million in state tax revenues and approximately $1.5 million in local government taxes.

Conservatively assuming an annual attendance of 2.75 million a year, it is estimated that the team and stadium, once in operation, will make direct expenditures of $49 million a year within the Commonwealth and generate over $40 million in annual wages, exclusive of team salaries. The baseball franchise will be responsible for creating approximately 620 full-time jobs and significantly more part-time jobs.

Before and after games, fans traveling to the ballpark will shop, dine, use transit and spend the night in lodging. It is estimated that approximately $17 million a year in spending will occur outside the stadium and be incurred primarily by out-of-town attendees. Because of the stadium's expected proximity to Maryland and the District of Columbia, fans outside the Commonwealth will represent an estimated 30-40 percent of attendance. Moreover, Virginians who whould have spent their entertainment dollars outside the state are expected to spend those sum in-state. For example, approximately 9 percent of attendees at Baltimore Orioles games are from Northern Virginia. A substantial number of these people would remain in the Commonwealth and not "export" their baseball dollars to Maryland.

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[4] The material in this section was liberally extracted from a report entitled "The Economic and Fiscal Impacts of a Proposed Major League Baseball Franchise and Stadium on the Commonwealth of Virginia: Review and Analysis," prepared for the Virginia Baseball Stadium Authority by the Government Finance Group, Inc., serving as part of the financial advisory team to the Authority.

[5] "The Economic Benefits Analysis for a Major League Baseball Team in the Commonwealth of Virginia" prepared by KPMG Peat Marwick for the Virginia Baseball Club ("the KPMG study"); "Economic and Fiscal Impact Analysis of a Proposed Major League Baseball Franchise and Stadium in Arlington County Virginia" prepared by Arthur Andersen LLP for Arlington County ("the Andersen study"); and the National Capital Region Economic Impact Model (NCREIM) employed by George Mason University. A copy of their report is attached as Appendix B.

Thus far, economic impact has been expressed in terms of direct spending relating to baseball operations. The operation of the multiplier, as moneys are re-spent in the region and state, will approximately double the size of the impact. It is estimated that total annual tax revenues attributable to baseball operations will be approximately $13 million for state and local government. However, costs associated with providing public services on game days[6] and the amortization of amounts contributed by the state or localities for construction must be offset.

Because the construction of a stadium and the operation of a major league baseball franchise can be considered a new line of business, the concept of substitution for spending that might otherwise have occurred is not necessarily relevant. A stadium located in Northern Virginia will both attract out-of-state attendance and retain those that might travel out of the state to spend their entertainment income. Combined, these fans may account for half the attendance at the new stadium and represent a potent boost to local spending. Alternatively, failure to attract a team into the state could further deepen the entertainment dollar deficit in Virginia.

Equally important is the advertising potential not only for the region but for the entire Commonwealth. The widespread publicity and broadcasting of events at the stadium will increase the exposure for the Northern Virginia area and the Commonwealth thereby providing an identity and international recognition factor not currently enjoyed. A final agreement for the construction of a stadium should include a strong committment to promote tourism in all of Virginia. To this end, the provision of space within the stadium to promote all regions of the Commonwealth and the publication of tourism information in the baseball programs at no cost to the Commonwealth should be among those items considered as part of the stadium financing plan.

IV. WORK OF THE SUBCOMMITTEE

The joint subcommittee was required by HJR 223 and SJR 101 to report its findings and recommendations to the Governor and the General Assembly by July 1, 1996. In pursuing its legislative mandate, the joint subcommittee met seven times.

At its organizational meeting, the joint subcommittee was briefed by the co-financial advisor[7] to the Virginia Baseball Stadium Authority ("the VBSA") on recent trends and issues relating to baseball stadium financing. Of particular interest to the subcommittee was an overview of revenue streams typically used to finance a sports facility based on the public-private partnership concept.

[6] Estimated at $1 million annually for 81 home games.
[7] Stafford Sports Ventures, L.P. and Government Finance Group, Inc.

Revenue streams used to finance sports facilities:

Public	Private
General Appropriations	Tickets
Hotel Occupancy Tax	Concessions
Sales Tax	Novelties/Merchandise
Restaurant Tax	Advertising
Auto Rental Tax	Naming Rights
Amusement/Admissions Tax	Luxury Seating
Parking Tax	Parking
Lottery Proceeds	Personal Seat Licenses
Non Ad-Valorem	Development Rights
Tax Increment Revenues	Sponsorships
Gaming	

Many existing multi-purpose stadiums were constructed with 60,000 or more seats in oval concrete bowls, cost between $20-30 million and were financed with municipal general obligation bonds. Examples would include Veterans Stadium (Philadelphia), Three Rivers Stadium (Pittsburgh), and Riverfront Stadium (Cincinnati). Stadiums of the 1990's cost between $150-250 million, seat 45,000-50,000, include 75-100 luxury suites and wider public concourse space, and are financed through a range of credit and cash flow devices involving both public and private funding sources. Financing profiles of a plethora of new baseball stadiums were provided, including the Ballpark at Arlington, Orioles Park at Camden Yards (Baltimore), The New Comiskey Park (Chicago), Coors Field (Denver) and Jacobs Field (Cleveland). [8] These newer facilities are viewed as major revenue generators primarily because of the following:

- Growth in use of luxury suites and club seats;
- Evolution of charter seats or personal seat licenses;
- Naming rights;
- Long-term concession deals; and
- Corporate entertainment.

In fact, stadium revenue far exceeds the average for major league baseball in the newer facilities, particularly for the Chicago White Sox (Comiskey Park) and the Baltimore Orioles (Camden Yards).

It was noted that investing public funds in such a venture should be viewed as more than just an economic development tool. Equally important to consider in making such an investment is the civic factor. Major league franchises not only become a tremendous source of civic pride, but can also assist a region in national and international image making as result of media exposure.

[8] See Appendix C.

At a later meeting, the co-financial advisor gave a more detailed presentation on public financing options.

In 1994, Fairfax County and Loudoun County engaged HOK Sports to develop a conceptual stadium design plan and Barton Marlow to provide order-of-magnitude construction cost estimates. HOK's preliminary design program on which cost figures were based was non-site specific and assumed a 42,000-seat stadium (expandable to 47,000). Total cost for stadium construction was estimated at approximately $289 million. Based on that figure, $16-$19 million was used, representing a "low" estimate, as the target amount of public funding which must be made available to support bonds issued by the VBSA.

The subcommittee then reviewed a report prepared by the VBSA's co-financial advisor examining options for raising the targeted amount of public funding.[9] Potential funding sources included:

TAX SOURCE	ESTIMATED RATE INCREASE	POTENTIAL REVENUE ON REGIONAL BASIS (In FY 1995 Dollars)
Sales Use Tax	1/10 cent	$17,914,900
Sales Tax Rebate	n/a	1,082,813
Personal Income Tax Rebate	n/a	1,381,995
Corporate Income Tax Rebate	n/a	*not estimated*
Sports Lottery	n/a	7,000,000
Liquor Tax	10%	5,584,756
Cigarette Tax	$0.05 per pack	4,630,592
Car Rental Tax	1%	1,898,531
Gas Tax	0.5%	4,497,081
Transient Occupancy Tax	1%	5,071,065
Meals Tax	1%	30,999,081
Admissions Tax	10%	4,400,000
Parking Tax	$1 per car	1,000,000

The subcommittee had requested a regional tax analysis which would include Planning District 8[10] plus Stafford County.

It became clear early on that certain options were untenable to the subcommittee, including raising the sales, cigarette, gasoline and meals taxes. Most palatable were the tax rebate options and the admissions and parking taxes. The major concern with regard to creating new lottery games to support financing of a baseball stadium was that such games might divert funds from education to the extent that annual revenue generated from them was not incremental.

[9] A detailed analysis of the various revenue sources examined can be found in Appendix D.

[10] Planning District 8 members include: the Cities of Alexandria, Fairfax, Falls Church, Manassas, Manassas Park, and the Counties of Arlington, Fairfax, Loudoun, and Prince William. No towns were included in this regional analysis.

The joint subcommittee also held a public hearing at the Center for Innovative Technology on the revenue proposals raised at the earlier meetings. Over 40 citizens, including representatives of civic and neighborhood associations and many diehard baseball fans, spoke to the legislative panel and overwhelmingly asked legislators to help bring baseball to Virginia. However, several opponents argued that building a stadium in the region would place further strain on already congested highways and that taxpayer dollars should not be invested in an expensive ballpark when more pressing state needs such as education and transportation remain.

The most popular financing option suggested by speakers was Virginia lottery money, specifically, the creation of a sports lottery game with revenues dedicated to paying off bonds issued to construct the stadium. This would give Virginians an opportunity to support public funding if they were so inclined and avoid forcing the financing on taxpayers opposed to such a plan.

Penelope Kyle, director of the Virginia State Lottery Department, later spoke to the subcommittee on the implementation of a sports lottery in the Commonwealth. The presentation included a look at three other states that have earmarked lottery revenue for specific programs such as construction of sports facilities. Maryland, the closest example, adopted legislation which requires the Lottery Department to provide revenue to the Maryland Stadium Authority generated from sports-themed scratch games. It was noted that the income generated from these games did not appear to be incremental. Maryland's lottery department discovered that labeling the games as funding the Stadium Authority was an unsuccessful tactic for many boycotted the sports-themed scratch games because they wanted their money to go to education.

In Washington, the law requires a certain revenue amount from specific lottery games to be turned over to a stadium fund each year. Here approximately 50 percent of the revenue generated has been incremental. Also, stadium revenue-generating games have enjoyed a very positive public reception. Public support for the games could be attributed to the fact that the Seattle Mariners won a division title and played in the post-season for the first time ever last year. In fact, the Washington Lottery felt it could have sold more stadium game tickets if legislation had not been written so that income from the game could not exceed the legislated limit.

In Arizona, the Lottery Department was required by law to devote profits from two scratch games per year to economic development. Officials reported that putting "profits devoted to economic development" message on the tickets backfired.

Although disappointed that the Lottery Department could not guarantee that new scratch games would bring in a substantial amount of new revenue, members of the subcommittee began to acknowledge that incremental lottery revenue was a viable option and could be a key factor in a successful stadium financing plan, provided it was packaged in such a way as to ensure that funds would not be diverted from other state programs. The Director also made it clear, however, that the Lottery Department had a greater chance of raising additional or incremental lottery revenue if it was not limited to implementing new scratch games to generate it.

The subcommittee met several more times in working sessions to develop a feasible financing plan. These working sessions involved deliberations between the joint subcommittee members, the VBSA, and its financial advisors and the VBC.

V. FINDINGS AND RECOMMENDATIONS

The subcommittee finds that major league baseball would have a substantial and favorable economic development impact on the Commonwealth (including advertising and tourism opportunities) and endorses the report of Government Finance Group, Inc., the co-financial advisor to the Virginia Baseball Stadium Authority, delivered to the subcommittee at its June 17, 1996, meeting and made a part hereof.[11] The subcommittee adopts the following plan of financing for the proposed Virginia Baseball Stadium Project, believes that this plan constitutes a workable arrangement for attracting Major League Baseball to Virginia, and recommends it for consideration by the General Assembly, the Virginia Baseball Stadium Authority and other interested parties.

Project Cost: Estimated at $300 million exclusive of construction period financing, reserve funds and financing expenses.

Ownership: Virginia Baseball Stadium Authority.

Operator: Private entity either affiliated with the baseball team or selected by the baseball team and the Authority.

Developer: Private development entity either formed by the baseball team or selected by the baseball team with Authority participation.

[11] See Appedix B.

Allocation of Funding Responsibilities:	Public sources--approximately \$14 million annually (52%) Private sources--approximately \$13 million annually[12] (48%)
Public Revenues:	1. New state sports lottery initiative operated under more flexible conditions which are designed to produce \$14 million per annum in incremental revenues. Proceeds to be segregated and maintained in a special account of the general fund by the State Treasurer and/or transferred to the Virginia Baseball Stadium Authority Financing Fund. 2. Rebate by Commonwealth of its share of sales taxes and corporate and personal income and franchise taxes collected on transactions and wages of stadium and team operations including during construction period. These are estimated to approximate \$4 million per annum. If stadium ticket sales are included in state/local sales tax, this number could be higher. 3. Two-percent admission surcharge payable to the host locality and imposed on the sale of all tickets sold at the stadium. These are estimated to approximate \$800,000 per annum and would be used to fund local day-of-event expenses (e.g. traffic, police, etc.).
Conditions Precedent to Implementation of Stadium Lottery Financing:	As a condition precedent to final approval of the lottery financing component of the Stadium financing plan, the Virginia Lottery must deliver a report to the General Assembly (i) detailing the strategies and operating plans for modifying the existing lottery programs and practices to increase net income and (ii) outlining the nature and scope of additional games, if any, that will need to be implemented in order to assure the long-term financial health of the lottery system for the purposes of maintaining current cash flows to the general fund and yielding an incremental \$14 million annually dedicated to stadium funding. The subcommittee recommends that the Virginia Lottery be requested to prepare and deliver such an analysis by December 1, 1996.

[12] Includes tax payments from private enterprise to public agencies.

Private Revenues:

1. Minimum annual rental payment of $9 million payable by the team and/or operator of the stadium from operating revenues of the project. These revenues would be paid to the Authority if credit terms could be favorably negotiated or to private lenders or investors to finance approximately $100 million in project capital.

2. Assumption of facility operating expenses by team/operator which are expected to approximate between $6.2 and $7.5 million per annum, depending on the level of game-day expenses paid by the host locality and recovered from the two-percent local admissions tax.

3. Funding of renewal and replacement reserve which will require deposits approximating $0.5-1.0 million per annum.

Capitalization: The project could be capitalized as follows:

Stadium Authority Bond Proceeds[13]	$185,000,000
Cash Generated from Rebates During Construction[14]	15,000,000
Team Contributions/Investments[15]	100,000,000
Total, Sources of Capital	$300,000,000

Lease Terms and Annual Debt Service Authority's Bonds: The Authority debt will be structured as interest only during construction and amortized over a 30-year operating term, subject to a lease with the team under which the team covenants to play all home games in the project and covenants to "nonrelocation" provisions. Damage provisions should include, but not necessarily be limited to, a provision requireing the team to be responsible for the lease payments for the balance of the lease terms should they relocate. Debt service, assuming a taxable borrowing, will approximate $18 million per annum.

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[13] Actual bond principal amount approximating $200 million. Cash available to disburse to cover project costs will approximate $185 million.

[14] Rebates during construction include state and local sales taxes collected on construction materials and state and local personal income taxes collected on construction worker wages.

[15] Team contributions of $100 million will be financed from annual rental payment of $9 million.

Basic Legal Structure: The Virginia Baseball Stadium Authority has sufficient authorization in existing law to enable delivery of the necessary indentures, security agreements, leases and subleases to enable it to carry out the proposed Plan of Financing. The Authority should, to the extent it deems appropriate, seek, at a future date, such legislative changes and clarifications should such changes be determined to be necessary.

The Authority will enter into a lease or sublease, construction agreement and operating agreement with the team or related parties for a term of 30 years from commencement of operations (or such other terms as shall be equal to the term of the Authority's bonds). The team will either make the $9 million annual rental payment to the Authority or make a $100 million capital investment.

Public Participation in Facility Performance: Public participation in the upside valuations created in the team as a result of the investment in a baseball stadium would be negotiated. Such participation could be structured to include both the annualized payments from stadium project/team profits as well as value realized upon the transfer of control of the team to new ownership determined through a "look back" internal rate of return analysis. The Commonwealth (via the Authority) could realize a portion of returns in excess of established standards. The exact nature of the Commonwealth's participation in the values created through its investment in the stadium project should be part of the negotiations between the Virginia Baseball Stadium Authority and the baseball team.

Tenant Responsibilities: The team would assume responsibility for controlling design, development and construction of the project subject to a development agreement with the Authority. The team, with input from the Authority, would select the architects, engineers and contractors for the project. The team would accept construction risk and cost overrun risk and would be responsible for paying any such cost overruns.

Guarantees: The team would guarantee shortfalls in state and local sales tax collections and personal income taxes rebated to the Authority against a four-million-dollar annual standard. A letter of credit in the approximate amount of $1.5 million would be secured by the team to collateralize this guarantee. The collateral and guarantee could be extinguished subject to actual performance standards. In addition, the Authority will seek to negotiate a standby provision enabling the implementation of an additional admissions tax or surcharge of up to three million dollars annually to cover any temporary shortfalls in lottery collections. During legislative consideration of the subcommittee's proposed financing plan, alternative revenue sources may also be examined to support potential lottery shortfalls.

Project Cost Savings and Excess Public Cash Flows: Any reductions in cost resulting from a modified program design, value engineering and interest rate reductions the effect of which would reduce the capitalization and/or debt service requirement for financing the project shall be shared on a fair and reasonable basis between the team and the Authority, subject to negotiation. To the extent that actual sales and personal income tax collections by the Commonwealth and the host locality exceed four million dollars, the amount of such excess shall be credited to the lottery account, thereby reducing the amount of lottery funds which shall be needed to finance the project.

Other Local Finance Strategies: The host locality may, at its option, implement other value recapture strategies (e.g. tax increment district, etc.) to recover values and tax revenues created from the development of the project. Such recovered revenues could, at the local option, be used to defray costs associated with stadium services.

Debt Financing: The subcommittee recognizes that there are many issues which will impact whether the Virginia Baseball Stadium Authority could issue its bonds on a tax-exempt or a taxable basis. A substantial benefit could be derived if tax-exempt financing is utilized; however, proposed federal law and Internal Revenue Code regulations will determine whether a tax-exempt option exists. The subcommittee recommends that strategies to implement tax-exempt financing be weighed against the trade-offs that may have to be considered relative to the level and scope of private financial participation and that the Virginia Baseball Stadium Authority pursue an implementation plan which balances the cost savings from tax-exempt financing with the lease costs and benefits of a more "privatized" arrangement.

The subcommittee further recommends that the General Assembly enact legislation which will authorize and implement the proposed plan of financing and which, at a minimum, would (i) authorize and direct the Virginia Lottery to implement the aforementioned initiatives, (ii) clarify existing law to enable the Commonwealth and locality to "rebate" sales, income and franchise taxes payable to the Commonwealth and host locality in a manner that will enable such income to flow to the Virginia Baseball Stadium Authority, (iii) adopt a two-percent admissions surcharge payable to the host locality, and (iv) provide suitable authorizations to the Virginia Baseball Stadium Authority to carry out the provisions of the financing plan.

The joint subcommittee extends its gratitude to all interested persons who contributed to its work.

Respectfully submitted,

Vincent F. Callahan, Jr., *Chairman*
Richard L. Saslaw, *Co-Chairman*
C. Richard Cranwell
Alan A. Diamonstein
William P. Robinson, Jr.
Warren E. Barry
H. Russell Potts, Jr.
Charles S. Boone
Ellen M. Bozman
Kenneth L. Crovo
Paul D. Fraim
George C. Newstrom
George A. Overstreet, Jr.

VI. APPENDICES

APPENDIX A

HOUSE JOINT RESOLUTION NO. 223

Establishing a joint subcommittee to study financing options for the purpose of constructing a baseball stadium in Virginia.

Agreed to by the House of Delegates, February 8, 1996
Agreed to by the Senate, February 21, 1996

WHEREAS, the Virginia Baseball Stadium Authority was created in 1992 to finance and construct a major league baseball stadium in the Commonwealth; and

WHEREAS, the Commonwealth views the acquisition of a major league baseball franchise as a major economic development opportunity for the state that would benefit the citizens of Virginia by providing recreational opportunities as well as economic development benefits associated with major league baseball; and

WHEREAS, in order to attract a major league baseball franchise, the Virginia Baseball Stadium Authority must demonstrate that it has in place a sound financial vehicle for constructing, maintaining and operating a major league baseball stadium; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a joint subcommittee be established to study financing options for constructing a major league baseball stadium in Virginia. The subcommittee shall consider the appropriate roles for state and local government and the private sector, possible revenue sources, and the costs to state and local government. The subcommittee shall be composed of 13 members as follows: four members of the House of Delegates, with expertise in appropriations, and two representatives of local government to be appointed by the Speaker of the House; three members of the Senate, with expertise in finance, and two citizens of the Commonwealth one each to be appointed by the Speaker of the House and the Senate Committee on Privileges and Elections; and two members of the Virginia Baseball Stadium Authority to be appointed by the Speaker of the House, upon the recommendation of the Authority. The appointments shall be made as expeditiously as possible in order to facilitate early reporting.

The direct costs of this study shall not exceed $7,750.

The Division of Legislative Services shall provide staff support for the study. All agencies of the Commonwealth shall provide assistance to the joint subcommittee, upon request.

The joint subcommittee shall complete its work in time to submit its findings and recommendations to the Governor and the General Assembly by July 1, 1996.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

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APPENDIX A

SENATE JOINT RESOLUTION NO. 101

Establishing a joint subcommittee to study financing options for the purpose of constructing a baseball stadium in Virginia.

Agreed to by the House of Delegates, March 4, 1996
Agreed to by the Senate, February 29, 1996

WHEREAS, the Virginia Baseball Stadium Authority was created in 1992 to finance and construct a major league baseball stadium in the Commonwealth; and

WHEREAS, the Commonwealth views the acquisition of a major league baseball franchise as a major economic development opportunity for the state that would benefit the citizens of Virginia by providing recreational opportunities as well as economic development benefits associated with major league baseball; and

WHEREAS, in order to attract a major league baseball franchise, the Virginia Baseball Stadium Authority must demonstrate that it has in place a sound financial vehicle for constructing, maintaining and operating a major league baseball stadium; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That a joint subcommittee be established to study financing options for constructing a major league baseball stadium in Virginia. The subcommittee shall consider the appropriate roles for state and local government and the private sector, possible revenue sources, and the costs to state and local government. The subcommittee shall be composed of 13 members as follows: three members of the Senate, with expertise in finance to be appointed by the Senate Committee on Privileges and Elections; four members of the House of Delegates, with expertise in appropriations and two representatives of local government, to be appointed by the Speaker of the House; two citizens of the Commonwealth, one each to be appointed by the Senate Committee on Privileges and Elections and the Speaker of the House; and two members of the Virginia Baseball Stadium Authority to be appointed by the Speaker of the House, upon the recommendation of the Authority. The appointments shall be made as expeditiously as possible in order to facilitate early reporting.

The direct costs of this study shall not exceed $7,750.

The Division of Legislative Services shall provide staff support for the study. All agencies of the Commonwealth shall provide assistance to the joint subcommittee, upon request.

The joint subcommittee shall complete its work in time to submit its findings and recommendations to the Governor and the General Assembly by July 1, 1996.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

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BASEBALL STADIUM FINANCING PROFILES

Project Review: The Ballpark at Arlington

Key Terms and Facts	Summary		
Key Terms and Facts	Summary		
Facility Name	The Ballpark at Arlington		
Year Opened	1994		
Quick Description	49,178 seats including 120 suites and 5,386 club seats		
Ownership	City of Arlington, Texas		
Tenant	Texas Rangers (American League)		
Total Cost of the Project	$191.2 million including $114.2 million in construction and $31.1 million in site costs.		
Sources of Funds		Sales Tax Revenue Bonds	$135,000,000
		Junior Lien Sales Tax Bonds	12,000,000
		Junior Lien Bonds/Suite Licenses	23,112,915
		Concessionaire Funding	12,680,779
		Sale of Brick Pavers	1,000,000
		Investment Income	4,908,000
		City Street Bonds Funds	2,500,000
		Totals	$191,273,694
Plan of Finance	City created the Arlington Sports Authority and agreed to schedule a referendum to impose of ½ of 1% sales tax within the city for use by the Authority for the Project. The voters approved implementation of the tax on January 1991. The ½ of 1% sales tax generated $15.9 million in 1995. The sales taxes were pledged to the Authority's $135 million in bonds. The Authority also imposes a $1 ticket surcharge and collects approximately $3.5 million in rent from the Rangers. These revenues are pledged to certain junior lien obligations.		
Extent of Public and Private Financing	Public: 82% Private: 18%		

BASEBALL STADIUM FINANCING PROFILES, CON'D.

Project Review: Orioles Park at Camden Yards

Key Terms and Facts	Summary
Facility Name	Orioles Park at Camden Yards
Year Opened	1992
Quick Description	48,262 seats including 66 suites and 3,800 club seats
Ownership	Maryland Stadium Authority
Tenant	Baltimore Orioles (American League)
Total Cost of the Project	$209.735 million (approximate) but includes only $50 million cost of land (add'l. Land for football stadium not included)
Sources of Funds	Lease Revenue Bonds $155,000,000 Lottery Proceeds and Earnings 40,000,000 Investment Income 10,750,000 City of Baltimore Payments 4,000,000 Totals $209,750,000
Plan of Finance	The Stadium Authority was created by an act of the Maryland Legislature and was established to finance both a baseball stadium and football stadium, subject to leases. The act also established as special sports lottery (instant) and allowed up to four games annually. The State anticipated an $8 million yield from each game. Proceeds of the lottery are deposited into a segregated account of the general fund. The Authority leases its facilities to the State the rental payments for which are subject to appropriation but are paid from lottery receipts. The State sub-leases the project back to the Authority which in turns sub-leases it to the Orioles.
Extent of Public and Private Financing	Public: 100% Private: 0%

BASEBALL STADIUM FINANCING PROFILES, CON'D.

Project Review: The New Comiskey Park

Key Terms and Facts	Summary
Facility Name	The New Comiskey Park
Year Opened	1991
Quick Description	44,321 seats including 102 suites and 1,800 club seats
Ownership	Illinois Sports Facilities Authority
Tenant	Chicago White Sox (American League)
Total Cost of the Project	$233.83 million including $183 million of land, design and construction costs, $37.2 million of interest during construction costs, and $7.2 million of administrative and pre-opening expenses.
Sources of Funds	State Tax Supported Revenue Bonds $150,000,000 State Tax Proceeds 61,579,000 Investment Income 10,549,000 Hotel Tax Collections 11,700,000 Totals $233,828,000
Plan of Finance	The Sports Authority was created by an act of the Illinois Legislature in response to a threat by the White Sox to relocate. The Authority's bonds are secured by certain State tax payments payable to a special fund up to a maximum amount of $18 million per annum (derived from $13 million in state hotel tax and $5 million in local government distributive funds allocable to the City of Chicago. The project is managed by the team which is responsible for the facility's operations and routine upkeep. The Authority provides $2 million annually for routine maintenance and makes $1 million in annual deposits to a capital reserve
Extent of Public and Private Financing	Public: 100% Private: 0%

BASEBALL STADIUM FINANCING PROFILES, CON'D.

Project Review: Coors Field

Key Terms and Facts	Summary	
Facility Name	Coor's Field	
Year Opened	1995	
Quick Description	50,200 seats including 52 suites and 4,400 club seats	
Ownership	Denver Metropolitan Major League Baseball Stadium District	
Tenant	Colorado Rockies (National League)	
Total Cost of the Project	$225 million including $200 million of design and construction costs, $15 million of site acquisition and related expenses.	
Sources of Funds	Sales Tax Revenue Bonds	$105,000,000
	Sales Tax Collections	75,000,000
	Contribution by the Team/Concessionaire	35,000,000
	Investment Income	5,000,000
	Equipment Leases	5,000,000
	Totals	$225,000,000
Plan of Finance	The Stadium District was created by an act of the Colorado General Assembly. A referendum was held in August 1990 resulting in the approval of the imposition of a regional sales tax at a rate of 0.10% in a six county district in metro-Denver. Sales tax collections have exceeded $20 million annually while debt service payments approximate $10.5 million. Resulting in a faster payout of the bonds. The team sold the naming rights of the project to Coor's Brewery for $15 million and secured internal and external financing for the concessionaire build out and equipment, the scoreboard and certain tenant equipment and finishes.	
Extent of Public and Private Financing	Public: 85% Private: 15%	

BASEBALL STADIUM FINANCING PROFILES, CON'D.

Project Review: Jacobs Field

Key Terms and Facts	Summary	
Facility Name	Jacob's Field	
Year Opened	1994	
Quick Description	42,865 seats including 120 suites and 2,062 club seats	
Ownership	Gateway Economic Development Corporation of Greater Cleveland	
Tenant	Cleveland Indians (American League)	
Total Cost of the Project	$244 million.	
Sources of Funds	Senior Lien Excise Tax Revenue Bonds	$78,664,320
	Junior Lien Excise Tax Revenue Bonds	38,390,000
	Stadium Revenue Bonds	31,000,000
	Excise Tax Collections	28,000,000
	Sale of Founders Luxury Suites	15,000,000
	Subordinate Loan from Civic Group	20,000,000
	Contributions by City and County	23,000,000
	Sale of Naming Rights	13,900,000
	Investment Income	9,000,000
	Totals	$243,964,320
Plan of Finance	The Corporation is a private, non-profit entity which entered into a three party agreement with the City of Cleveland and Cuyahoga County to develop the ballpark and a new arena. Pursuant to a state statute, the voters of the County approved an excise tax on the sale of liquor, cigarettes, beer, wine and mixed beverages to finance the sports facilities. This tax will be imposed for twenty years and is generated approximately $19 million per annum.	
Extent of Public and Private Financing	Public: 66% Private: 33%	

BASEBALL STADIUM FINANCING PROFILES, CON'D.

Summary Assessment of Funding Arrangements for Proposed New Ballparks

Project	General Financing Plan	Status
Cincinnati	In March 1996, voters approved the imposition of a ½ of 1% sales tax in Hamilton County to finance two new facilities: one for the Bengals (NFL) and one for the Reds (MLB). The complex will cost approximately $544 million $305 million from the sales tax, $130.4 million from the two teams and other private sources and $130.4 million from the State of Ohio.	With the approval of the referendum, development and financing should commence soon.
Milwaukee	The Brewers are attempting to develop a $270 million stadium project to be financed from $150 million in sales tgax bonds (backed by a 0.10% sales tax in the five county metro area approved by legislature), $90 million in team secured loans (from a private lender and the Wisconsin Housing and economic Development Authority), proceeds of the sael of naming rights to Miller Brewing ($20 million) and $10 million in investment earnings.	The project has been delayed due to security and credit disputes between the teams' private lender (NationsBank) and the WHEDA over lien and collateral issues.
Phoenix	Voters approved a sales tax in Maricopa County to finance a new $330 million project (Bank One Ballpark). The tax will provide cash and debt proceeds of $300 million (over five years) and the tenant, the Arizona Diamondbacks will fund the $30 million balance.	Construction will commence within the next month or so.
San Francisco	Proposal to build a $250 million project was given a lift with the recent passage of a zoning referendum. This will be first privately financed baseball stadium since Busch Stadium and Chavez Ravine. Plan is to sell PSLs, suites, naming rights, concession rights, etc. To raise $110 million and project finance $140 million.	Very questionable financing structure. Interesting and important goal but likely to to run into difficulty with lenders.

SALES & USE TAX

Description: A 4.5 percent sales tax is levied on all retail sales in the Commonwealth of Virginia. Sales tax revenues are distributed as follows:

	RATE	Comments
STATE		
General Fund	2.00%	
Transportation Trust Fund	0.50%	
Education Distribution	1.00%	Distributed to localities based on school-age population.
Subtotal State Sales Tax	3.50%	
LOCAL OPTION	1.00%	
TOTAL	4.50%	

Current & Potential Revenue Generation:

	ONE CENT LOCAL OPTION SALES TAX FY95 NET DISTRIBUTION	1/10 CENT INCREASE	1/4 CENT INCREASE
City of Alexandria	$15,420,922	$1,542,092	$3,855,231
Arlington County	21,719,282	2,171,928	5,429,821
City of Fairfax	6,715,599	671,560	1,678,900
Fairfax County	91,379,964	9,137,996	22,844,991
City of Falls Church	2,586,307	258,631	646,577
Loudoun County	12,706,333	1,270,633	3,176,583
City of Manassas	2,823,129	282,313	705,782
City of Manassas Park	678,337	67,834	169,584
Prince William County	21,836,300	2,183,630	5,459,075
Stafford County	3,282,826	328,283	820,707
	$179,148,999	$17,914,900	$44,787,250

Source: Commonwealth of Virginia, Auditor of Public Accounts
Notes: Includes one-time refunds, credits, or offsets due to localities in FY95 and is net of state administrative fees.

General Assembly Action Required: General Assembly authorization would be required to allow Northern Virginia localities to raise their local option sales tax rate and to dedicate those revenues to stadium debt service. General Assembly approval would also be required to raise the state sales tax rate and dedicate those revenues to stadium debt service.

SALES TAX REBATE

Description: The Virginia Baseball Stadium Authority (VBSA) enabling statute allows VBSA to receive all state sales tax revenues generated by transactions taking place upon the premises of the stadium. This rebate of state sales taxes includes the two percent state General Fund allocation, the 0.5 percent Transportation Trust Fund allocation and the one percent local education allocation. The VBSA enabling statute also allows the locality in which the stadium is located to direct to VBSA its local option sales taxes generated by transactions at the stadium. State and local sales taxes distributed to VBSA under current statute may be used for the repayment of bonds, stadium operating expenses, and other purposes of the Authority.

Current & Potential Revenue Generation: For purposes of this analysis, only direct spending generated on the premises of the stadium was included; no induced spending (which is typically estimated using multiplier models) was included. This treatment is consistent with the VBSA enabling statute.

- ***Direct Sales Taxes Generated by Construction:*** For purposes of this analysis, it is assumed that VBSA will be a tax-exempt entity and thus, no state or local sales taxes on sales of construction materials will be available for rebate.
- ***Direct Sales Taxes Generated on Premises of Stadium:*** Concession and novelty sales are both considered taxable purchases, and sales taxes levied on these purchases, under existing law, would be rebated to VBSA by the Commonwealth. Ticket sales are not considered taxable purchases.

	ATTENDEE SPENDING PER CAPITA	ANNUAL ATTENDANCE	TOTAL SPENDING	SALES TAX RATE	ESTIMATED SALES TAX REBATE
Concessions	$7.50	2,750,000	$20,625,000	4.5%	$928,125
Novelties	$1.25	2,750,000	3,437,500	4.5%	154,688
	$8.75		$24,062,500		$1,082,813

SOURCE: Concession/novelty per capita spending and annual attendance estimates provided by Stafford Sports Venture, L.P.

General Assembly Action Required: None; already approved in previous sessions.

Local Jurisdiction Action Required: Local authorization will be required to direct local option sales tax collections generated from stadium transactions to VBSA.

PERSONAL INCOME TAX REBATE

Description: Similar to the sales tax rebate, the General Assembly could authorize VBSA to receive a rebate of all personal income taxes generated by team and stadium employees.

Current & Potential Revenue Generation: Only direct wages and salaries paid by the Virginia Baseball Club have been included in this analysis.

	SALARIES	PERCENT TAXABLE	VIRGINIA RESIDENTS	AMOUNT TAXABLE IN VIRGINIA	TAX RATE	ESTIMATED INCOME TAX REBATE
MLB Players	$38,000,000	80%	70%	$21,280,000	5.75%	$1,223,600
Managers, Coaches, & Trainers	1,285,500	80%	70%	$719,880	4.50%	$32,395
Administration	5,000,000	80%	70%	$2,800,000	4.50%	$126,000
	$44,285,500			$24,799,880		$1,381,995

SOURCE: Assumptions taken from KPMG Peat Marwick economic impact study with the exception of administrative salaries, which was increased from $3.3 million to $5.0 million.

General Assembly Action Required: General Assembly approval would be required to allow the VBSA to receive personal income taxes generated by activities taking place at the stadium.

CORPORATE INCOME TAX REBATE

Description: Similar to the sales tax rebate, the General Assembly could authorize VBSA to receive a rebate of all corporate income taxes generated by team and stadium employees.

Current & Potential Revenue Generation: No attempt was made to estimate the potential revenue generation of a corporate income tax rebate. While private vendors and concessionaires (which may not necessarily be Virginia firms) will most likely experience a net increase in profits from their activities at the stadium, it may be difficult to set up an administrative mechanism to capture the appropriate share of each company's net income attributable to Virginia baseball activities.

Rebate of any corporate income taxes paid by the team will be easier to segregate and remit to VBSA, however, the amount of net taxable income the team will generate each year is difficult to predict. Average franchise operating income varies greatly from year to year, depending on the performance of the team, level of player salaries, and various league agreements and trends.

General Assembly Action Required: General Assembly approval would be required to allow VBSA to receive corporate income taxes generated by activities taking place at the stadium.

INSTANT SPORTS LOTTERY

Description: The Commonwealth's Lottery Board sponsors 12 - 15 instant scratch-off lottery games per year in addition to its other lottery games. The General Assembly could authorize the Lottery Board to offer additional instant lottery games with a sports theme to partially finance a baseball stadium.

Current & Potential Revenue Generation: It is important to note that instant lottery games are very sensitive to competing lottery games and net revenue generation of any particular game could decline over time. In addition, lottery sales in Virginia vary significantly by region. The following estimate is very preliminary, and does not take into account the impact a sports lottery game might have on existing Virginia lottery games. Further analysis will be necessary to better estimate the potential yield of an instant sports lottery game in Northern Virginia. By comparison, Maryland's instant sports lotteries for Camden Yards yield approximately $6 - 8 million per game.

AVERAGE LOTTERY REVENUES PER INSTANT GAME	$20,000,000
PROFIT MARGIN	35%
AVERAGE NET PROFIT PER INSTANT GAME	$7,000,000

Source: Virginia Baseball Club based on discussions with Virginia Lottery Board officials.

General Assembly Action Required: General Assembly approval would be required to direct the Lottery Board to offer one or more special sports lotteries annually for a number of years and to dedicate net game proceeds to VBSA.

ALCOHOLIC BEVERAGE TAXES

Description: The Commonwealth of Virginia levies four alcoholic beverage taxes:

- Distilled Spirits Tax
- Wine Liter Tax (40 cents per liter sold)
- Beer & Beverage Excise Tax (based on weight)
- License Tax

The distilled spirits tax consists of two separate taxes: 1) a 4 percent tax on the sales price of wine from state vineyards sold through state stores and 2) a 20 percent tax on the sales price of distilled spirits sold in state stores. Distilled spirits and beer and beverage tax collections are remitted to the Commonwealth's General Fund; wine liter tax collections are distributed among localities, the Commonwealth's General Fund, and the Department of Alcoholic Beverage Control.

The Commonwealth's ABC stores generated net profits of $32,203,683 in FY1995. Net profits are distributed among the Commonwealth's General Fund and localities. In this analysis, no portion of net profits is assumed to be used for baseball purposes.

Current & Potential Revenue Generation: In FY1995, ABC tax collections on a statewide basis were as follows:

	FY95 COLLECTIONS
Wine Liter Tax	$16,915,355
Beer & Beverage Excise Tax	38,427,299
Distilled Spirits Tax	48,371,114
	$103,713,768

SOURCE: Commonwealth of Virginia, Department of Alcoholic Beverage Control.

ALCOHOLIC BEVERAGE TAXES, CONT.

Collections of the wine liter and beer and beverage excise tax by point of sale for each locality are not available and no attempt was made to estimate what a regionwide increase in either of these taxes would generate.

	DISTILLED SPIRITS TAX FY95 COLLECTIONS	10% INCREASE IN DISTILLED SPIRITS TAX 2% INCREASE IN WINE TAX IN STORES	INCREASE IN WINE LITER TAX	INCREASE IN BEER & BEVERAGE EXCISE TAX
City of Alexandria	$762,451	$381,226		
Arlington County	1,525,127	762,564		
City of Fairfax	447,130	223,565		
Fairfax County	5,575,166	2,787,583		
City of Falls Church	329,338	164,669	NOT ESTIMATED	NOT ESTIMATED
Loudoun County	688,225	344,113		
City of Manassas	771,777	385,889		
City of Manassas Park	*no ABC store*	*no ABC store*		
Prince William County	887,213	443,607		
Stafford County	183,085	91,543		
	$11,169,512	$5,584,756		

SOURCE: Commonwealth of Virginia, Department of Alcoholic Beverage Control.

State Sales Tax Rate Increase on ABC Store Sales: As an alternative, the General Assembly could raise the state sales tax rate on distilled spirits sales in state ABC stores.

General Assembly Action Required: General Assembly approval would be required to increase liquor taxes on a regional basis and dedicate those revenues to VBSA.

CIGARETTE TAX

Description: Certain localities are allowed to levy a flat tax on packs of cigarettes. Cities and towns can impose the cigarette tax by local ordinance with no restriction as to rate. Among counties, only Arlington and Fairfax Counties are allowed to levy the cigarette tax, and are limited to a rate of 5 cents (per pack of 20 cigarettes) or the state rate, whichever is greater. The Commonwealth's cigarette tax rate is currently 2.5 cents per pack.

Current & Potential Revenue Generation:

	CIGARETTE TAX FY95 COLLECTIONS	FY 95 RATE	$0.05 PER PACK INCREASE
City of Alexandria	$1,414,079	$0.20	$353,520
Arlington County	712,745	0.05	712,745
City of Fairfax	545,458	0.25	109,092
Fairfax County	2,122,432	0.05	2,122,432
City of Falls Church	188,877	0.20	47,219
Loudoun County	-	-	269,075
City of Manassas	361,048	0.15	120,349
City of Manassas Park	77,700	0.15	25,900
Prince William County	-	-	677,000
Stafford County	-	-	193,261
	$5,422,339		$4,630,592

SOURCE: Localities' Comprehensive Annual Financial Reports, FY1995. Fairfax County collections were taken from its FY1997 Proposed Budget. Prince William County estimate was taken from its Revenue Estimates FY1997-2001 publication. Loudoun and Stafford Counties collections were estimated as a percentage of Fairfax County collections based on proportionate population.

General Assembly Action Required: For Loudoun, Prince William, and Stafford Counties, General Assembly authorization would be required to allow them to impose the cigarette tax. For Arlington and Fairfax Counties, General Assembly authorization would be required to allow them to increase the cigarette tax rate by $0.05 per pack. General Assembly approval would also be needed to the raise the state cigarette tax rate in Northern Virginia and to dedicate those collections to VBSA.

CAR RENTAL TAX

Description: As part of the Commonwealth's package of motor vehicle sales and use taxes, the Commonwealth imposes an eight percent tax on the gross proceeds of any motor vehicle rental in Virginia. Four percent of this tax is levied on any motor vehicle rental; an additional four percent is levied on the daily rental of passenger cars (defined as weighing 9,000 pounds or less). All proceeds of the tax, whether four or eight percent, are collected by the Commonwealth, and the four percent daily car rental tax is distributed to the city, county, or town where the tax was collected.

Current & Potential Revenue Generation: Arlington and Loudoun Counties are the primary beneficiaries of this tax due to the location of National and Dulles Airports in their jurisdictions.

	DAILY CAR RENTAL TAX FY95 DISTRIBUTION	FY95 RATE	1.0% INCREASE
City of Alexandria	$241,443	4.00%	$60,361
Arlington County	3,739,632	4.00%	934,908
City of Fairfax	375,750	4.00%	93,938
Fairfax County	487,823	4.00%	121,956
City of Falls Church	7,910	4.00%	1,978
Loudoun County	2,529,033	4.00%	632,258
City of Manassas	36,655	4.00%	9,164
ity of Manassas Park	824	4.00%	206
Prince William County	175,052	4.00%	43,763
Stafford County	-	4.00%	-
	$7,594,123		$1,898,531

SOURCE: Commonwealth of Virginia Department of Motor Vehicles.

General Assembly Action Required: General Assembly approval would be required to raise the daily car rental tax above four percent and to dedicate those collections to VBSA.

GAS TAX

Description: Localities belonging to either the Northern Virginia Transportation Commission (NVTC) or the Potomac-Rappahannock Transportation Commission (PRTC) are authorized to levy a special local sales and use tax on motor fuel of up to two percent of the retail price of the fuel. The tax is collected by the Commonwealth's Department of Taxation and distributed directly to NVTC and PRTC. The use of these funds is limited by state statute to transportation purposes: NVTC can use its motor fuel sales taxes for operating deficits and debt service of mass transit systems; PRTC can use its motor fuel sales taxes for any transportation purpose.

Current & Potential Revenue Generation:

	FY95 COLLECTIONS	FY95 RATE	0.50% INCREASE
City of Alexandria	$1,139,523	2.00%	$284,881
Arlington County	1,488,773	2.00%	372,193
City of Fairfax	639,957	2.00%	159,989
Fairfax County	8,236,086	2.00%	2,059,021
City of Falls Church	313,035	2.00%	78,259
Loudoun County	1,487,749	2.00%	371,937
City of Manassas	562,827	2.00%	140,707
City of Manassas Park	134,956	2.00%	33,739
Prince William County	2,900,682	2.00%	725,171
Stafford County	1,084,737	2.00%	271,184
	$17,988,325		$4,497,081

SOURCE: Commonwealth of Virginia Department of Taxation.

General Assembly Action Required: General Assembly authorization would be required to allow localities to raise the local motor fuel sales tax above two percent and to use these collections for a purpose other than transportation.

TRANSIENT OCCUPANCY TAX

Description: Localities are allowed to levy a transient occupancy tax on charges for occupancy of any room or space in hotels, motels, boarding houses, travel campgrounds and other facilities providing lodging for less than thirty days. All counties are authorized to impose the transient occupancy tax by local ordinance at a rate of up to 2 percent. Arlington County has special legislative authority to levy the transient occupancy tax at 5.25 percent, 0.25 percent of which is dedicated to tourism and sunsets in 1999. Cities and towns can impose the transient occupancy tax by local ordinance with no restriction as to rate.

Current & Potential Revenue Generation:

	TRANSIENT OCCUPANCY TAX FY95 COLLECTIONS	FY 95 RATE	1.0% INCREASE
City of Alexandria	$2,766,156	5.00%	$553,231
Arlington County	10,952,616	5.25%	2,086,212
City of Fairfax	174,121	2.00%	87,061
Fairfax County	3,616,699	2.00%	1,808,350
City of Falls Church	89,533	5.00%	17,907
Loudoun County	426,055	2.00%	213,028
City of Manassas	73,379	4.00%	18,345
City of Manassas Park	*none*	0.00%	*not estimated*
Prince William County	408,000	2.00%	204,000
Stafford County	165,865	2.00%	82,933
	$18,672,423		$5,071,065

SOURCE: Localities' Comprehensive Annual Financial Reports, FY1995. Fairfax County collections were taken from its FY1997 Proposed Budget. No attempt was made to calculate potential revenue generation of transient occupancy tax if it were to be levied in City of Manassas Park.

General Assembly Action Required: General Assembly authorization will be required to allow Northern Virginia counties to levy the transient occupancy tax at a rate above 2 percent. For Arlington County, General Assembly authorization will be required to allow it to increase its transient occupancy tax to a rate above 5.25 percent.

FOOD AND BEVERAGE (MEALS) TAX

Description: Localities are allowed to levy a tax on the amount charged for certain prepared foods and beverages. Cities and towns can impose the meals tax by local ordinance with no restriction as to rate. Counties, however, are subject to several statutory limitations in levying the meals tax. First, the meals tax rate, when combined with the state and local sales tax rate, cannot exceed 8.5 percent. Second, most counties must receive voter approval at referendum before imposing the tax. Counties with populations between 70,000 and 100,000; 17,910 and 18,000; 34,000 and 34,400; or having a county manager form of government can impose the tax without a referendum.

Current & Potential Revenue Generation:

	MEALS TAX FY95 COLLECTIONS	FY 95 RATE	1.0% INCREASE (OR IF LEVIED AT 1.0%)
City of Alexandria	$6,011,871	3.00%	$2,003,957
Arlington County	13,473,420	4.00%	3,368,355
City of Fairfax	1,286,534	2.00%	643,267
Fairfax County	-	0.00%	10,000,000
City of Falls Church	691,936	3.00%	230,645
Loudoun County	-	0.00%	1,500,000
City of Manassas	1,229,491	4.00%	307,373
City of Manassas Park	161,651	4.00%	40,413
Prince William County	-	0.00%	2,490,000
Stafford County	1,660,284	4.00%	415,071
	$24,515,187		$20,999,081

SOURCE: Localities' Comprehensive Annual Financial Reports, FY1995. Prince William and Fairfax Counties estimates from conversations with local officials. Loudoun County estimate from Virginia Baseball Club based on conversations with local officials.

General Assembly Action Required. For all Northern Virginia cities and for Arlington and Stafford Counties, General Assembly authorization would be required to allow these jurisdictions to raise their meals tax rate above the current four percent rate. For Fairfax, Loudoun, and Prince William Counties, General Assembly authorization would be required to impose a meals tax without a public referendum.

ADMISSIONS TAX

Description: Certain localities are allowed to levy a tax based on the charge for admission for certain events that fall within five classes. Cities and towns can impose the admissions tax by local ordinance with no restriction as to rate. Only Fairfax, Arlington, Dinwiddie, Prince George, and Roanoke Counties are currently authorized to levy the admissions tax by ordinance at a rate of up to 10 percent; however, Fairfax's authority to levy this tax was questioned by a court ruling in the 1970's. Among counties, only Dinwiddie and Roanoke Counties currently levy an admissions tax.

Current & Potential Revenue Generation: Few localities in Virginia levy the admissions tax. The revenue-generating capacity of the tax is relatively minimal, and many Virginia jurisdictions believe that the costs of administering and collecting the admissions tax outweigh any potential revenue gains. With the exception of the City of Falls Church, no other Northern Virginia jurisdiction levies the admissions tax.

Virginia Baseball Stadium Authority: Amendments to the Virginia Baseball Stadium Authority enabling statute approved during the 1996 session of the General Assembly allow the local jurisdiction in which the stadium is located to direct any admissions tax collections generated from stadium ticket sales to VBSA for the repayment of bonds or other Authority purposes

AVERAGE ANNUAL ATTENDANCE	AVERAGE TICKET PRICE	ADMISSIONS TAX COLLECTIONS AT 1%	ADMISSIONS TAX COLLECTIONS AT MAXIMUM ALLOWED RATE OF 10%
2,750,000	$16.00	$440,000	$4,400,000

SOURCE: Attendance and ticket price estimates provided by Stafford Sports Venture. By statute, 10 percent is the maximum allowed admissions tax rate.

General Assembly Action Required: General Assembly authorization would be required to permit the host locality to levy an admissions tax exclusively on stadium ticket sales. In addition, General Assembly authorization would be required to allow Loudoun, Prince William, and Stafford Counties to levy an admissions tax on stadium ticket sales.

Local Jurisdiction Action Required: Local approval (by ordinance or resolution) would be required to levy an admissions tax at the stadium and to direct those collections to VBSA.

PARKING TAX

Description: Although currently not authorized under Virginia law, the Commonwealth or local jurisdictions could potentially levy a tax on parking fee collections at the stadium and in a district surrounding the stadium.

Current & Potential Revenue Generation: The potential revenue generation of a parking tax will greatly depend on the ultimate location of the stadium and the extent to which the stadium is served by mass transit.

ESTIMATED NO. OF OCCUPIED SPACES	NO. OF GAMES	TAX RATE	ESTIMATED PARKING TAX COLLECTIONS
12,500	80	$1/car	$1,000,000

General Assembly Action Required: General Assembly authorization would be required to allow localities to levy a parking tax and to dedicate those collections to VBSA.

APPENDIX D

THE ECONOMIC AND FISCAL IMPACTS OF A PROPOSED MAJOR LEAGUE BASEBALL FRANCHISE AND STADIUM ON THE COMMONWEALTH OF VIRGINIA:

REVIEW AND ANALYSIS

Prepared For:

THE VIRGINIA BASEBALL STADIUM AUTHORITY
George Barton, Chairman

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June 14, 1996

INTRODUCTION AND PURPOSE OF REPORT

The purpose of this report is to provide an analysis of economic and fiscal impacts of a proposed baseball stadium in Northern Virginia for the Virginia Baseball Stadium Authority. This report primarily critiques and builds upon the analysis presented in two reports: "The Economic Benefits Analysis for a Major League Baseball Team in the Commonwealth of Virginia" produced by KPMG Peat Marwick (referred to as the "KPMG Study") for the Virginia Baseball Club and the "Economic and Fiscal Impact Analysis of a Proposed Major League Baseball Franchise and Stadium in Arlington County Virginia" prepared by Arthur Andersen LLP for Arlington County Virginia (referred to as the "Andersen Study"). In addition, reference is made to the National Capital Region Economic Impact Model (NCREIM) employed by George Mason University.

All three of these studies indicate that the construction and operation of the proposed stadium would have a positive impact on the regional and state economy. Each, however, reflects some significant differences in approach, somewhat varies the assumptions, and investigates impacts at various levels of detail and aggregation. Thus, an objective of this report is to explain the differences and to provide our own "best estimates" as to impacts.

At the outset, it is useful to define some terms that will be used in the analysis. First, impact models tend to focus on three measures of economic activity: output (the overall level of gross business sales), earnings (wages and benefits) and employment (the number of full-time equivalent [FTE] jobs). Project spending can be translated into these key variables by the use of coefficients that relate additional spending in one sector to the corresponding changes in other sectors. An impact of particular interest is the fiscal impact which relates changes in the economic variables to changes in governmental revenues.Where spending occurs geographically is important. Purchases made locally or in-state directly stimulate the economy while those made elsewhere are viewed as "leakages" that do not contribute to local jobs, income, and tax revenues.

Another important concept is that of direct versus total spending impacts. The former are the initial or first round expenditures that result from hiring labor and making purchases as part of the construction and operation of the activity, in this case the building of a stadium and the operations of the stadium and the team. These initial expenditures set off added rounds of spending, incomes, and employment as dollars are recycled in the economy. Adding together these initial and secondary impacts provide a total impact on the economy and the fiscal system. The total impact is determined by use of multipliers that take into account both the primary and secondary impacts to estimate the total or final impact.

For example, the KPMG Study focused on the total impacts of baseball-related spending after the application of the multiplier. The Andersen Report, on the other hand, looked at direct impacts principally, although it indicated that secondary impacts would occur and could be estimated. The George Mason study used an econometric model that embeds the interactions and focused on the net impacts on total spending in the Northern Virginia region. In terms of detail, both the KPMG and, especially, the Andersen studies employed extensive tabulations of individual taxes to derive estimates of fiscal impacts, whereas, the NCREIM model used only overall ratios of taxes to personal income to estimate fiscal impacts.

In general, our analysis affirms much of what was presented in the KPMG and Andersen studies. It differs to an extent by lowering the projected attendance levels. In other places, however, it boosts the economic impacts when multipliers are deemed to be low or leakage high. In addition, it discusses the displacement or "net new money" argument, which was addressed briefly in the two cited studies. The major criticism leveled at the economic and fiscal impact analysis is that an activity may merely substitute one form of expenditure (or tax revenue) for another. While that argument is strong when activities are viewed nationally, it is less valid where new activities are placed on border locations in competing regions.

At the outset, it is important to note that the actual impacts will depend to some degree on the specific geographic location of the new stadium. Generally, variation in these impacts will be relatively more significant from the vantage point of the host local jurisdiction and relatively less important when viewed at the level of the Commonwealth.

The five components of this analysis are as follows:

I. Attendance Projections
II. Direct Construction Impacts
III. Direct Operating Impacts
IV. Total Operating and Construction Impacts
V. The Displacement of Spending Question

Attendance is important because it is the primary driver of much of the on-site and off-site spending and associated tax revenues. The second and third sections estimate the direct spending impacts on the Virginia economy as a result of the arrival of a professional baseball franchise. Then section four analyzes, through the multiplier effect, how those direct spending dollars will serve as a catalyst for further spending in the Commonwealth to produce the total operating and construction impacts.

An appendix is included that provides a sampling of articles, with evidence about professional baseball's impact on local and regional economies.

ATTENDANCE PROJECTIONS

Neither the KPMG Study nor the Andersen Study are precise about what they believe attendance will be for the new ballteam. Yet, this projection is crucial in estimating revenue to be collected as a result of stadium activity. The KPMG study in its review of attendance figures around the Major Leagues, indicates an expected range of 2.46 to 3.66 million based on average to high market penetration percentages. For purposes of calculating spending impacts, it uses 3.25 million (41,200 at 79 home games.). The Andersen Study makes projections for both a 40,000 per game average attendance scenario and a 30,000 per game fan scenario. But the emphasis of their estimated impacts relies on the 40,000 projection, or a total attendance of 3.2 million annually.

GFG believes that a 2.75 million attendance projection (34,375 per game, 80 game season) for the first five years of operation is a conservative assumption. Aside from the first blush of attendance due to novelty, continued attendance at high levels will require fielding a competitive team and the degree of competition in the league, neither of which can be assured.

Baseball Strike has taken toll on attendance, but other promising signs exist

The KPMG Study relies on attendance figures from before the 1994 baseball strike and the allure of a new stadium. There is no question that the strike took a toll on attendance – 1995 attendance was down 25 percent from 1994 pre-strike figures. Thus far, attendance in 1996 has improved eight percent over 1995 levels. In addition to the need for recovery from the strike, the lure of a new baseball stadium may dampen quickly. Florida Marlins attendance in 1995 was down 36 percent from its opening in 1993. Texas Rangers fans dropped 32 percent in 1995 from the 1994 park debut year. (More recently, attendance has been strong as the Rangers have fielded a winning team.) Although the appeal of retro "fan friendly" parks has been demonstrated, this concept has already been introduced to this region at Camden Yards. This would be the first experiment in fan interest for a *second* retro ballpark introduced to a region.

On the positive side, attendance at Camden Yards, Coors Field, Skydome, and Jacobs Field continues to flourish. And the new Arizona expansion team capped non-refundable season ticket deposits at 44,000 for a 48,500 seat stadium.[1] With a smaller market and a team only shifting location within the same city, Milwaukee Brewers attendance in a new stadium was projected by Arthur Andersen at 2.8 million for the first year, tapering off to the annualized 2.5 million after the first three years, depending on the success of the team.[2]

Relation of Attendance and Market Size

The KPMG Study spends a great deal of time exploring how the affluence and size of the Northern Virginia/DC Market is conducive to strong baseball attendance. However, as the data show, the link between market characteristics and baseball attendance is tenuous. A few cases match up:

[1] *Amusement Business* Nov 20, 1995
[2] *Amusement Business* Jan 23, 1995

	Rank by MLB team	
	Avg Annual Attendance 1989-95	MSA Rank
Boston	10	9
California	16	15
Milwaukee	26	28
St. Louis	13	16

Sources: KPMG Study, Major League Baseball

Most, however, do not and the relationship between attendance and market size can vary greatly:

	Rank by MLB team	
	Avg Annual Attendance 1989-95	MSA Size
Baltimore	3	17
Chicago (AL)	14	4
Cleveland	6	19
Detroit	27	7
Texas	9	27
Colorado	1	23
Houston	23	10
Pittsburgh	28	18
New York (NL)	19	2
San Diego	24	14

Sources: KPMG Study, Major League Baseball

Colorado and Detroit in particular provide strong examples of the lack of relationship between market size and attendance. For further support evidence of a 2.75 million annual attendance figure for a Virginia Team, please see Appendix B for a comparison with new Comiskey Stadium in Chicago.

DIRECT CONSTRUCTION IMPACTS

According to preliminary estimates, the full "hard" costs of the stadium are likely to be $225 million. Related infrastructure spending by local and state governments and associated professional costs (architect, engineer fees, etc.) will add another $25 million for a total of $250 million. This $250 million figure is the base used by Arthur Andersen in preparing their construction estimates. The slightly earlier KPMG study used a $200 million figure for stadium construction and made no allowance for offsite infrastructure spending by local governments or the Commonwealth. KPMG figures that $80 million of direct construction spending (some 40 percent of the $200 million expenditure) will occur in Virginia. Arthur Andersen in their estimate for Arlington County estimated that 50 percent of the construction and infrastructure work would represent spending in Virginia. Considering the detailed evidence the Andersen Study presents about the regional economy and construction industry, this seems a better assumption than KPMG. As a result, we believe that the actual stadium construction spending impacts will be 20 to 30 percent greater that those projected by KPMG at the state level for two reasons:

1. there will be a higher base cost of stadium construction, including the infrastructure costs
2. there should be a higher share of spending in the Commonwealth (50 percent as opposed to 40 percent).

Overall, we conclude that direct spending during the construction period would be $137.5 million (based on 1996 figures), with the creation of jobs for 1,035 person years and earning the equivalent of $31.5 million over two years. This construction-related economic activity would return a positive fiscal impact of $7.3 million to the Commonwealth and the host jurisdiction for the two-year period. Total impacts, including the multiplier effect, are considered later in this report.

The significance of these numbers is that since the stadium will be largely financed by borrowing, such expenditures will occur and their economic and fiscal impacts will be experienced before the stadium opens and the team plays. Since this is a new activity and there will be little if any displacement of other spending, this spending will represent a net stimulus to the Commonwealth and the region.

DIRECT OPERATIONS IMPACTS

Over the years, the estimated annual direct economic and fiscal impacts of the baseball franchise on the Virginia economy and the Northern Virginia region will be of greatest interest. For purposes of discussion and analysis, it is important to note that the income, spending, and employment impacts will be divided between those that occur at the site and those that occur outside the park. This distinction is an important one in designing the fiscal mechanisms that may help "capture" the positive benefits of the stadium's operation and be used to offset its costs. The values used are based on 1995-96 dollars unless otherwise noted. Since the stadium would not begin operations for two to three years hence, the actual dollar amounts are likely to be higher reflecting inflation during that interval of time.

Locus of Economic and Fiscal Impacts:

Inside the Park Impacts:
1. ticket sales
2. stadium concession and souvenir sales
3. stadium parking surcharge
4. stadium alcohol beverage sales
5. gross receipts tax
6. utilities tax

Outside the Park Impacts
1. outside the stadium fan spending
2. income taxes from player salaries
3. other budgetary spending by team

The above components are discussed individually below:

Admission tax on ticket sales

The Andersen study assumed $46.4 million in ticket sales with an average ticket price of $15.29. That study also assumed that tickets would be taxed at 10 percent (included in the ticket price), for total admission tax revenues of $4.2 million. The KPMG implicitly assumed an average price of $15.55 (tax not included) and assumed that 3.5 percent sales tax (a total of $1.7 million) would be collected. GFG projects an average ticket price of $16, including a 10 percent ticket tax embedded in the price. (All of the estimates are average price for all seats, including premium seating).

Average Annual Attendance	Average Ticket Price	Total Ticket Spending	Estimated Admissions Tax Collection At 10%
2,750,000	$16.00	$40,000,000	$4,000,000

Stadium Concession and Souvenir Sales

The Andersen Study assumes $9.50 per fan concession spending. The Peat Marwick study is not as explicit about in-stadium spending, but solving backward from their concessionaire/merchandiser operations implies $11.70 concession spending per fan. The ERA study for the San Francisco Giants in 1995 quotes 1993 per capita fan concession spending at Candlestick Park to be $7.49, for gross sales of over $19 million. Fan surveys conducted for the proposed stadium predicts a 13.3 percent increase to $8.49 per capita in concession spending at the new ballpark.

The Fan Consumer Index (FCI) represents what a family of four might pay at a major league game. It comprises four average priced tickets, two small draft beers, two small soft drinks, four hot dogs, parking for one car, two game programs and two twin baseball caps. The league average FCI for 1995 is $97.25.[3]

Taking all of this into account, GFG projects an average concession/novelty spending of $8.75. As the following table shows, on-site sales tax revenue (at 4.5 percent) on concession spending

[3] *Amusement Business* May 29, 1995

would yield $1.08 million annually. Note that 1 percent of the tax is a local government share of the sales tax.

	Attendee Spending Per Capita	Annual Attendance	Total Spending	Sales Tax Rate	Estimated Sales Tax Rebate
Concessions	$7.50	2,750,000	$20,625,000	4.5%	$928,125
Novelties	$1.25	2,750,000	3,437,500	4.5%	154,688
	$8.75		$24,062,500		$1,082,813

Stadium Parking Surcharge

A stadium parking surcharge of 10 percent would yield an estimated $590,000 in revenue annually. This is a rough estimate because the site of the stadium, its parking capacity, and its relative location to mass transit will all affect parking. This scenario assumes 12,500 spaces on site with a parking fee of $6.50 including the 10 percent parking tax. The Andersen Report estimated a $6.00 parking fee but no special tax.

# on-site spaces	Parking Fee	# of games	Total Parking Collections	Tax Rate	Estimated Parking Tax Collections
12,500	$6.50	80	$6,500,000	10%	$591,000

As with the ticket price, the parking fee has the tax embedded in the price.

Gross Receipts Tax (Business Professional and Occupational License Taxes)

The jurisdiction where the team will be headquartered will determine the rate of the gross receipts tax. We have assumed a BPOL tax rate of 20 percent for purposes of this analysis and taxable stadium operations of $113 million annually as the base, which generally comports with the Andersen Study.

Total Output from Annual Operations	Tax Rate	Estimated BPOL Tax Collections
$112,940,500	$0.20	$225,881

Stadium Alcohol Beverage Sales and Other On-site Taxes

One source of revenue not considered by either KPMG or Andersen is the state tax on alcohol sales that might apply to all beer sold at the ballpark, and the possible application of the local meals tax. There will be a small amount of revenue from spirits and wine sold at games, but this report will focus on the larger question of beer taxes. The State Alcohol Beverage Control (ABC) Department levies a beer and beverage excise tax of $7.95 per 31 gallon barrel. This report assumes an average amount of 30,000 12 ounce beers sold per game over an 80 game season. It should be noted that in addition to the tax on alcoholic beverages, stadium concession sales would be subject to the sales tax. We note that the implicitly low tax on sales of concession alcoholic beverages in Virginia suggest this as an area of significant revenue potential for either the team or the public sector.

Avg # of 12 oz beers sold per game	Total avg oz sold per game	Total oz beer sold per season	Total Gallons sold per season	Total 31 gallon barrels	Estimated Total Tax Revenue
30,000	360,000	28,800,000	450,000	14,516	$115,403

We have not made a separate estimate for the meals tax which would depend on the host locality and the definitions used for classifying certain concession sales as meals. However, sales in restaurants at the site of the stadium would be subject to a local meals tax of the host jurisdiction.

Utilities Tax

Taxable Amount	Tax Rate	Estimated Utilities Tax Collections
$1,300,000	2.20%	$28,600

The locally levied tax on utilities would provide a modest revenue to the host local government.

Sales Taxes from Outside Stadium Fan Spending

Not all spending will be done at the stadium site. Before and after games fans traveling to the park will shop, dine, use transit and spend the night in lodgings. The following table tallies spending by fans on various goods and services by the percentage of fans making various types of expenditures and the amount of expenditure.

We use a hybrid of information from both the KPMG and Andersen Studies. A large number of assumptions about the number of fans and their spending patterns need to made in order to estimate the impacts. As is discussed below, a factor in the spending by residents is that many would be spending in Virginia rather than going out of state. Recent estimates are that about nine percent of the attendees of Baltimore Oriole games are Northern Virginia residents. A substantial number of these would be persuaded to stay in the Commonwealth for entertainment and not "export" their baseball dollars to Maryland. Since they need not travel so far, their spending would be both redirected and reduced, reflecting the benefit of a closer sports venue.

Item	Lodging	Eating & Drinking	Retail
	Spending Category		
annual avg paid attendance	2,750,000	2,750,000	2,750,000
times % attendees spending on service	5%	35%	20%
times avg. amount spent on service	$ 80.00	$ 12.00	$ 7.00
times % spent in Virginia	75%	55%	55%
times days per stay	1.2	1.2	1.2
divided by number of persons per hotel room	1.5		
Total	$ 6,600,000	$ 7,623,000	$ 2,541,000
Sales tax revenue from out-of-towners	$ 297,000	$ 343,035	$ 114,345
Meals tax (3%)		$ 228,690	
Occupancy Tax (2%)	$ 132,000		
Total Outside Park Spending in VA	**$ 16,764,000**		
Total Tax Revenue	**$ 818,070**		

Income taxes from player salaries

Salaries paid to team employees including the players will be subject to state income taxes. The KPMG Study assumed that 70 percent of the ballplayers would live in Virginia and that 80 percent of their nominal salaries would be taxable. The Houston Astros 1994 salary of $38 million was used as a proxy. Lost income tax revenue credited to players for duplicated taxation in other states where they gain baseball income was assumed to be offset by Virginia similarly taxing visiting ball players.

The question of how many ballplayers will reside in Virginia appears to be moot. Virginia, like Maryland, considers a taxpayer to be an in-state resident if the person maintains an abode in the state for more than 183 days. Even an athlete maintaining a second residence would need to live somewhere near his place of employment during the season. But more importantly, Virginia (as Maryland already has done) would undoubtedly enact legislation that would tax the income of professional athletes/entertainers generated in the state. Maryland's formula calculates the percentage income generated *while on duty* in Maryland versus the total income generated while on duty overall. This formula considers a professional athlete's income to be gained only over the baseball season. (Maryland, as we anticipate would Virginia, taxes visiting players and credits duplicate taxation by other states on its residents). Thus, even if Virginia team members resided outside of the state, their income tax payments would not differ substantially than were they to be residents.

Analysis indicates that KPMG's assumption of how much of the athletes' salaries would be taxable is correct. The following table shows that for the last complete survey of Virginia taxation, 85 percent of the adjusted gross income for the income group of those earning $100,000 was taxable.

Virginia Annual Income Group	Total AGI	Virginia Taxable Income	% income taxable
1991 Virginia AGI $100,000+	$16,704,289,206	$14,265,072,180	85%

Taking the conservative view of the KPMG Study that 80 percent of baseball wages would be taxable yields an estimated income tax collection of $1.75 million.

Est. ANNUAL SALARY	% WAGES TAXABLE	Est. Taxable Income	Income Tax Rate	Estimated Income Tax Revenue
$38,00,000	80%	$30,400,000	5.75%	$1,748,000

Other Administration/ Stadium Salaries

Est. ANNUAL SALARY	% WAGES TAXABLE	Est. Taxable Income	Income Tax Rate	Estimated Income Tax Revenue
$4,538,800	70%	$3,177,160	5.75%	$182,687

Budgetary Spending by Team

In addition to the income taxes levied on the payroll, consumption expenditures and team and stadium budgetary spending in Virginia will be subject to sales taxation. The shaded areas in the following table indicate the three items where we have reduced the amount spent in Virginia assumed in the KPMG Study. Criticism of estimated baseball player spending the Virginia economy surfaced in the *Washington Post* (11-14-95). Particularly at high salary levels, consumption expenditures subject to taxation tend to be much lower than at lower salaries. Accordingly we believe that the KPMG estimates are too high. We have reduced that figure from 41 percent to 30 percent. Similarly, we have reduced the Managers and Administration salaries spent in Virginia from 55 percent to 35 percent. For the spending impacts we assumed a 4.5 percent Virginia sales tax rate would be applied.

	Total Direct Spending	% spent in VA	Direct Spending in VA only	Sales Tax Rev.
Budgetary Spending by Team				
MLB Player Salaries	$ 38,000,000	30%	$ 11,400,000	$ 513,000
Managers etc	1,285,500	35%	449,925	20,247
Adminstration Salaries	5,000,000	35%	1,750,000	78,750
Travel and Accomodation	2,142,500	100%	2,142,500	96,413
Equipment	2,142,500	70%	1,499,750	67,489
General Admin	3,253,800	50%	1,626,900	73,211
Subtotal	$ 51,824,300		$ 18,869,075	$ 849,108

Summary of Annual Direct Economic and Fiscal Impacts

Estimates of Direct Spending Within Commonwealth

	Total Direct Spending	% spent in VA	Direct Spending in VA only
Budgetary Spending by Team			
MLB Player Salaries	38,000,000	30%	11,400,000
Managers etc.	1,285,500	35%	449,925
Administration Salaries	5,000,000	35%	1,750,000
Travel and Accommodation	2,142,500	100%	2,142,500
Equipment	2,142,500	70%	1,499,750
Advertising	3,856,400	25%	964,100
General Admin.	3,253,800	80%	2,603,040
Subtotal	55,680,700		20,809,315
Budgetary Spending by Stadium			
Salaries	1,100,000	80%	880,000
Other	4,700,000	80%	3,760,000
Subtotal	5,800,000		4,640,000
Concessionaire Cost of Service			
Total	9,625,000	70%	6,737,500
Out of Town Attendee Spending			
Lodging	6,600,000	100%	6,600,000
Eating and Drinking/ Retail	7,623,000	100%	7,623,000
Misc. Retail	2,541,000	100%	2,541,000
Subtotal	16,764,000		16,764,000
Total Direct Spending from Operations (recurring annually)	**$87,869,700**		**$48,950,815**

Along with the aforementioned alterations to the KPMG Study assumptions, we reduced the advertising percentage spent in Virginia from 75 percent to 25 percent, because we do not believe the KPMG Study sufficiently took into account the large amount of advertising that a Northern Virginia club will spend in the Washington DC based media market.

The methodology KPMG used to determine the concessionaire spending is elaborate, but we have used our projections for concession sales for a 2.75 million attendance. The KPMG Study explains on page 53 that concessionaire/merchandise spending is derived from 40 percent of overall sales. Using this methodology we come up with $9,625,000 as the Concessionaire Cost of Service which is less than the $14.9 million in the KPMG Study.

Otherwise, we largely accept the estimates made by the VBC and used by KPMG. Our estimate of the total annual direct spending impact of baseball operations is $48.9 million.

Comparison with other studies including George Mason Report

The $48.9 million estimate of direct economic activity in Virginia resulting from baseball is lower than the estimated $62 million from the Andersen report. But the estimate is higher than a recent study issued by the Institute of Public Policy at George Mason University, which placed its annual estimate at $31 million for Northern Virginia. The lower impact of George Mason study can be explained by (1) overly conservative base assumptions such as player salaries and (2) estimated spending patterns by fans outside the stadium, and (3) the study may also be too conservative on how much outside the stadium spending will occur in Northern Virginia. Overall, our estimate of $48.9 million places it almost squarely in the middle of the optimistic Andersen estimate and the cautious George Mason study.

Estimates of Fiscal Impact

Item	Fiscal Impact
Inside the Park	
Baseball Ticket Sales	$4,000,000
Stadium Concession And Souvenir Sales	1,082,813
Stadium Parking Tax	591,000
BPOL Tax	225,881
Stadium Alcohol Sales	115,403
Utilities Tax	28,600
Inside the Park Subtotal	$6,043,697
Outside the Park	
Outside Stadium Fan Spending	818,070
Player Salaries	1,748,000
Other Salaries from Team	182,687
Other Budgetary Spending By Team	849,108
Outside the Park Subtotal	$3,597,865
Total	**$9,641,562**

The fiscal impact estimate is tabulated from the calculations earlier in this section. The total estimate becomes $9.64 million annually employing the potential tax bases and rates discussed above. Of this amount, $6 million would be collected from on-site spending at the stadium. The remainder of almost $3.6 million would be derived from incomes earned at the stadium or monies spent outside the stadium as a result of its activities. These are first round or direct spending effects that do not include multiplier impacts and the increase in revenues related to them.

TOTAL OPERATING AND CONSTRUCTION IMPACTS ON VIRGINIA ECONOMY

The preceding discussions dealt only with primary or direct impacts from spending. In order to assess the total operating and construction impacts of a baseball franchise on the Virginia economy, it is essential to understand the full impact on spending and employment, or the multiplier effect. This effect is quantified by a numerical coefficient, or multiplier, that is applied to the cost of materials and labor for a construction project to estimate its final economic impact.

At the heart of understanding this impact on the state economy is that a expenditures in conjunction with a professional baseball franchise are not spent only once. After the initial outlay, chunks of the money continue to flow around the state economy as proprietors use receipts to pay wages, to buy services and supplies, and to pay taxes. Over time, the money "leaks out" as the proprietors and employees of businesses make purchases, save and invest money, and pay taxes that flow out of the state. The implication of secondary impacts is an important one: no matter who is directly involved with the operations of the baseball franchise, everybody in the state economy gets a piece of the action.

The KPMG Study selected the widely used multipliers from the Bureau of Economic Analysis division of US Department of Commerce Regional Input-Output Modeling System (RIMS II). As Peat Marwick indicated, these multipliers are appropriate because they are sensitive to both location and type of spending. The multipliers are calculated on the basis of state-wide impacts and those employed are for Virginia.

Total Construction Impact

Because we believe the Andersen construction spending estimates to be the more thorough, we applied the RIMS multipliers to the Andersen direct construction impacts. They showed that the multiplier assumptions by Andersen to be on target:

> It is estimated here that a multiplier on the order of 2.0 would be appropriate for the Northern Virginia economy. Thus, the total impacts on the Commonwealth of Virginia, direct plus indirect, would be approximately twice the direct impacts estimated herein.[4]

Applying the RIMS multipliers to the state level impacts of stadium construction yielded a total impact of 2.25 times greater than the direct economic and fiscal impacts presented in the Andersen study. To be conservative and to take into account the different nature of local taxation in Arlington as opposed to other potential jurisdictions for the stadium's location, a multiplier of 2.0 looks sound. Therefore the total estimated construction impact in Virginia is the following over the two year life of the construction project.

Total Economic Activity	Total FTE Jobs Created	Total Fiscal Impact
$275 million	2,070 person years	$14.6 million

[4] Andersen study, page 10

Total Annual Operations Impact

Total Output

To determine the total output of annual baseball operations in Virginia, we took our projected direct impacts and applied the RIMS multipliers. Our estimates are slightly lower than those found in the KPMG Study primarily due to our lower appropriate attendance assumption. The bottom half of the table reflects greater out of stadium spending impacts by attendees than the KPMG Study because of the higher direct spending estimates made by incorporating the stronger fan spending analysis from the Andersen study.

	Direct Spending	Multiplier	Total Output
Team Operations	$ 20,809,315	2.1388	$ 44,506,963
Stadium Operations	4,640,000	2.1388	9,924,032
Concessionaire Operations	6,737,500	2.1083	14,204,671
Attendee Spending			
Lodging	6,600,000	2.0002	13,201,320
Eating and Drinking	7,623,000	2.1083	16,071,571
Misc. Retail	2,541,000	2.1324	5,418,428
Transportation	1,269,969	2.0196	2,564,829
Total	$ 48,950,815		$105,891,814

Total Job Impact

Applying the RIMS multipliers to the estimated direct spending yields an estimated full time equivalent of 1,645 jobs a year for the Virginia economy.

	Direct Spending	Employment Multiplier (per $1 million spending)	Total Jobs
Total Direct Spending	$ 48,950,815	33.6	1,645

Total Earnings Impact

Total wage earnings in Virginia resulting from the direct spending of the team, stadium, and fan spending is estimated to be just over $40 million annually, as is shown in the following table.

	Direct Spending	Earnings Multiplier	Total Earnings
Team Operations	$ 20,809,315	0.8843	$ 18,401,677
Stadium Operations	4,640,000	0.8843	4,103,152
Concessionaire Operations	6,737,500	0.8843	5,957,971
Attendee Spending			
Lodging	6,600,000	0.6155	4,062,300
Eating and Drinking	7,623,000	0.6136	4,677,473
Misc. Retail	2,541,000	0.8234	2,092,259
Transportation	1,269,969	0.7149	907,901
Total	$ 48,950,815		$ 40,202,733

Total Fiscal Impact

Much of the annual fiscal impact (approximately $9.6 million) was captured in the first round of spending. However, the Commonwealth and its localities will capture added revenue as a result of sales and income generated by secondary rounds of spending related to the baseball franchise. The three sources of revenue from these transactions will be income taxes from increased earnings, sales taxes from a portion of the earnings spent on taxable goods, and the myriad of lesser taxes which capture revenue from total output of business activity.

Since the direct spending leads to several forms of revenue that were uniquely related to the stadium activity (admissions tax, concession and accommodation taxes, high income tax receipts from player salaries, etc.) it is necessary to make adjustments in estimating a total impact amount where spending and taxing patterns are more normal. Income tax from total earnings is calculated by removing the direct salaries from team employees and then applying an assumed 3.5 percent effective income tax rate to that remaining earnings generated. To derive sales tax revenues from total earnings, it is assumed that 25 percent of all earnings generated will be spent on taxable goods within the Commonwealth. To avoid double-counting, the portion of team salaries assumed to be spent in Virginia is subtracted from the total earnings figure. The remainder is multiplied by the 4.5 percent sales tax.

The final tax item captured is one that reflects the collection of lesser taxes and charges primarily levied on businesses. This definition of business taxes includes corporate profits taxes, real and personal property taxes on business assets, franchise taxes and business license fees, sales and use taxes and gross receipts taxes upon a firm's purchase of equipment, services and materials and those payroll taxes for which the firm is the statutory taxpayer. This analysis estimates that the percentage of business taxes not captured in the first round of spending is 2 percent. This rate is applied to total output produced to additional business taxes captured.

Increase in Tax Revenue Due to Secondary Impacts	
Total Earnings	$40,202,733
less managers, administration, stadium salaries from first round	32,817,233
times 3.5 % income tax	**1,148,603**
Total Earnings	$40,202,733
times 25% spent in VA	$10,050,683
minus managers, administration, stadium salaries spent in VA and already captured	$6,970,758
times 4.5% sales tax	**$313,684**
Total Output	$105,891,814
times 2% in other taxes	**$2,117,836**
TOTAL ADDITIONAL REVENUE	$3,580,124

That total additional fiscal revenue is added to revenue captured from direct economic activity to yield an annual estimated total of $13,221,686.

The Displacement Question

A frequent criticism of impact analysis is that money spent by existing firms and residents on an item is not entirely new because it might have been spent on something else. This observation is largely correct when viewing the nation as a whole, but much less so when investigating a particular region and a new activity. In that case, a wholly new activity will create new jobs and spending, especially when the spending is either "imported" from other regions or is retained in the region instead of being spent elsewhere.

Located on the border of two distinct taxing entities, Maryland and the District of Columbia, a baseball franchise in Northern Virginia could provide strong economic and fiscal impacts for the State of Virginia through only a slight geographic shift in the spending pattern of regional entertainment dollars. In other words, Northern Virginia would "export" a sports and entertainment product.

Major League Baseball's arrival to the region is likely to have a substantial new money impact for a number of reasons:

1. Residents of Virginia and the Metropolitan Area will spend money on recreation in this region rather than elsewhere.
2. Tourists will choose to come to the region or stay longer because of baseball.
3. Baseball will contribute to a climate that attracts businesses and jobs to the region that might go elsewhere.

Residents will spend money on recreation in this region rather than elsewhere

The baseball site will capture new baseball fans from the Washington MSA before they travel to Baltimore. The 1992 Camden Yard study estimates 22 percent of Camden Yards spectators hail from Washington MSA and 9 percent from Northern Virginia. Based on 1995 attendance figures projected for a full season, this total of Washington MSA fans at Camden would be 766,873, (310,230 Northern Virginia fans). That number of Washington area fans who are now spending baseball dollars in the Baltimore area would represent 28 percent of projected Virginia Baseball Team fans.

Tourists will choose to come to the region or stay longer because of baseball

The Washington DC Metro Area is an important tourist and business travel destination. A new ballpark in Northern Virginia can capture a portion of this impact for the region and the State through various means:

1. By convincing business travelers/tourists to DC area to prolong their trip and go to baseball game (new spending impact).
2. By becoming the decisive factor for visitors to choose a hotel in Virginia. Tourists and business travelers who spend the much of their visit in the District might be persuaded to stay

in a hotel south of the river if they plan to see one or two ballgames. The same could be said for visitors who naturally prefer a suburban hotel but would have chosen a hotel in Maryland were it not for the new baseball stadium in Northern Virginia. The location of a hotel choice will have strong impact on other tourist spending on meals and retail.

3. By enticing baseball fans to switch their vacation destination from Baltimore or Atlanta.

The Baltimore Study

The 1992 Survey by the Maryland Department of Economic Development of fans attending Oriole games at Camden Yards revealed information which addressed the displacement issue. As often quoted, the study determined that 46 percent of all fans attending Oriole games were from out-of-town. Estimated pre-game, post-game and overnight spending by out-of-town fans totaled $46 million. New out-of-town visitors to the Downtown area represented a 12 percent increase in the total annual volume of downtown visitors.

The report asserts that the $46 million spent by out-of-town fans "should be regarded as 'new money' to the local economy, i.e., it is a source of real economic growth."[5] It would not be fair to count automatically as "new" money those out-of-towners who arrived for reasons beyond baseball and simply substituted baseball spending for other entertainment. However, survey results show that baseball the determining factor for much of that out-of-town spending. Fifty-nine percent of fans staying overnight in the Baltimore area indicated that the primary purpose of their trip was to see the ballgame. Another 21 percent said that the reason was a combination of ballgame and some other purpose. Even among the remaining 20 percent, it could be argued that although baseball was not a primary reason for visiting Baltimore, attending an Orioles game lengthened their stay or enticed them to spend more than they would have otherwise. In sum, asserting that 75 percent of the $46 million spent in Baltimore by out-of-town baseball fans is new spending seems highly defensible.

Baseball will contribute to a climate that attracts businesses and jobs to the region that might go elsewhere

This point is difficult to quantify, but the attached appendix presents a number of case studies from across the nation that demonstrate new businesses opening around sports stadiums. Some of the businesses and jobs emerging around the stadium will undoubtedly be displaced from other parts of the state. But because of Northern Virginia's position on the border of the District and Maryland, slight regional shifts in business location can have large repercussions.

Also important to consider is solidifying regional identity in this context. A baseball team can help define a geographic, cultural, and commercial region for residents and businesses. It also provides an amenity which attracts new residents and businesses and encourages existing ones to stay. As Professor Stephen Fuller of George Mason University stated recently:

[5] page 6 of the study

Northern Virginia will not continue to attract other private sector investment unless its economy is perceived to be healthy, progressive, and well-positioned for further growth. Professional sports in general and baseball in particular adds these dimensions to the local economy. If the local economy is already perceived to be strong and well-positioned, as is the case in Northern Virginia, baseball strengthens this competitive edge psychologically while at the same time it will generate a significant return on the public investment made to bring it into being.[6]

[6] Testimony before the Virginia State Legislature, May 7, 1996