Testimony of Sports Fans Coalition Before the

House Judiciary Subcommittee on Courts, Commercial and Administrative Law

"End Discriminatory State Taxes for Automobile Renters Act of 2011"

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Good morning, Chairman Coble, Ranking Member Cohen and Members of the Subcommittee. Thank you for the opportunity to appear before you in support of H.R. 2469, the "End Discriminatory State Taxes for Automobile Renters Act of 2011."

My name is Brian Frederick and I am the Executive Director of Sports Fans Coalition, the largest nonprofit fan advocacy organization in the country. We are a bipartisan organization founded by members of the Clinton and Bush White Houses to give sports fans a voice on public policy issues.

I'm here on behalf of the members of Sports Fans Coalition around the country to urge you to support this bill because rental car taxes are one of the primary ways sports team owners are able to manipulate public dollars into private profit. Experts across the political spectrum agree that these stadiums provide little to no economic benefit for the community and only serve to increase the value of the franchise. The rental car taxes that help finance stadiums are assumed to be paid by non-residents, but, in fact, more residents rent cars than non-residents. Eliminating these excise taxes will help shift the responsibility back toward sports team owners to privately finance stadiums.

STADIUM SCHEMES

Mr. Chairman, there are numerous stadiums around the country that have been paid for, in part, with rental car taxes, but I'd like to focus on Lucas Oil Stadium in Indianapolis, where the Super Bowl is being held this weekend. The stadium opened in 2008 and cost $720 million, of which the public paid around 87% through taxes on hotels and food and a tax on rental cars. (Incidentally, the "nonprofit" National Football League will avoid paying those same taxes while in Indianapolis this week.) For his part, Indianapolis Colts owner Jim Irsay kicked in $100 million, although $48 million of that came from the public buying out the Colts' lease on the RCA Dome, so the public's share was actually more like 92%. Irsay and the Colts also receive around $14 million per year for advertising in the stadium, $25 million for luxury seating, and $6 million per year for the naming rights to the stadium, all while paying nothing in rent.[1]

Only one year after it opened, Lucas Oil Stadium was in danger of closing because its operating authority, the Capital Improvement Board, faced a $47.4 million operating deficit. This deficit was primarily because the costs of running Lucas Oil Stadium were higher than estimated. Irsay and the Colts refused to help out, even though the team receives $3.5 million annually from non-Colts related events. But Irsay was willing to raise the cost of the cheapest Colts ticket after only one season in the new stadium by 42%.[2]

This situation is not unique to Indianapolis. Last year, the Super Bowl was played in Cowboys Stadium in Arlington, Texas. That stadium opened in 2009 and cost $1.2 billion, of which the public paid at least $444 million (37%), despite Cowboys owner Jerry Jones' frequent references to the stadium "I" built. Part of the public financing also came through a 5% increase in Arlington's car rental tax. In Phoenix, the public paid at least 68% of the cost of the $455 million University of Phoenix Stadium, which included

[1] Ted Evanoff, "New Deal Lets Colts Rake In Cash," *Indianapolis Star*, (August 24, 2008)
[2] Phillip B. Wilson, "Colts Upper End Zone Seats to Cost More," *Indianapolis Star*, (February 14, 2009)

a 3.25% increase on car rentals. And in Houston, the public paid at least 61% of the $474 million Reliant stadium in part through a 5% increase in the county's rental car tax.[3]

And these are just NFL stadiums. Several other arenas and ballparks around the country for major professional sports teams have been financed using car rental fees, including the FedEx Forum in Ranking Member Cohen's district, which was financed in part using a county car rental tax.

Kansas City built a downtown arena hoping to lure a professional basketball or hockey team. In 2005, the city broke ground on the Sprint Center, which cost the public $276 million and is to be paid for entirely from hotel and car rental fees. Consumers renting cars in Kansas City now pay an extra 4 dollars per day to fund the arena, but five years after it opened, there still is no anchor tenant.

POLITICAL FOOTBALL

When the public is asked to vote on funding new stadiums for professional sports teams, they almost invariably vote no. What happens next is a game of political football. The owners threaten to leave town without a new stadium. They launch massive public relations campaigns, hyping the purported economic benefits of a new stadium and easily overspending the grassroots campaigns of concerned citizens. Local and state politicians are brought into the game, and far too often, support building these new stadiums because they can claim they helped build a brand new arena and created construction jobs for

[3] See Report "NFL Stadium Funding Information" prepared for Minneapolis' Metropolitan Sports Facilities Commission, December 2, 2011.

their constituents. They're also able to steer contracts toward donors and get free game tickets for their support. Further, if an owner is threatening to leave town without a new stadium, local politicians realize it's best to avoid being held responsible by an angry public if the team and the owner do leave. Ultimately, either the public eventually caves and passes another referendum or the state legislature intervenes, passing a funding bill against the wishes of the public.

Seattle knows this all too well. As Neil de Maus explains in *Field of Schemes*, "In five years [during the mid-1990s] the city's two professional sports franchises went up for sale, threatened to leave town, and wrangled huge public deals for new stadiums from a concerned populace…When the dust cleared and the bonds were issued, the lawsuits thrown out of court and the public referenda ignored, King County taxpayers would be left with one of the most enormous sports debts in recent history – close to $1 billion and counting for new homes for baseball's Mariners and football's Seahawks."[4]

Both of these stadiums were financed in part through a tax on car rentals. And that didn't even count the $75 million the public agreed to pay in 1995 for renovations to Key Arena, the home of the SuperSonics. Less than 10 years after Key Arena renovations, SuperSonics ownership sought an additional $200 million to expand Key Arena. After it became clear that the public was not willing to shoulder any more stadium debt, owner Clay Bennett uprooted the SuperSonics and took them to Oklahoma City, despite the 41-year history and tremendous following in Seattle. Even more absurdly, Seattle residents

[4] Neil de Mause & Joanna Cagan, *Field of Schemes*, 2008, p. 160.

are still paying off the debt from the Seahawks previous stadium, the Kingdome, which was demolished in 2000.

Excise taxes on car rentals and hotel rooms enable local politicians and stadium supporters to claim the costs of building a new stadium will be borne by out-of-town visitors. Indeed, these taxes are often referred to as “tourism taxes.” But while hotel rooms are primarily rented by out-of-towners, a June 2010 study conducted by the Brattle Group for the car industry found that 54% of the total revenues generated from rental cars were from home-city rentals.[5] In other words, just over half of the cars rented were by local residents. So while car rental excise taxes may seem like an attractive option for shifting the burden of paying for a stadium onto non-residents, in truth, residents bear the majority of the burden.

SPORTS FANS AS CONSUMERS

As a sports fan who travels frequently for games and sporting events, I am regularly hit with outrageous fees when renting a car. If I were to go home this weekend to see the Kansas Jayhawks take on the Missouri Tigers, I’d rent an economy car in Kansas City for three days at a base rate of $11 per day. That’s $33 dollars for the car, but the taxes and fees alone are $42.84, which is an increase of 129%! I would wind up paying $75.84 instead of $33. That means 16% of my bill will go to fund the Sprint Center, even though I am not attending any games there. Nor is there an actual team that plays there!

[5] Dr. Kevin Neels. "Effects of Discriminatory Excise Taxes on Car Rentals: Unintentional Impacts on Minorities, Low Income Households, and Auto Purchases." (June, 10 2010)

Sports fans are one of the largest consumer groups in America. A 2011 Washington Post poll found that "75 percent of Americans call themselves sports fans, with 38 percent saying they're more than casual fans."[6] Obviously, many of those fans spend money on game tickets, merchandise and on travelling to games. According to the Center for Sports Business and Research in the Smeal College of Business at Penn State University, the $200-billion-plus sports industry is twice the size of the U.S. auto industry and seven times the movie industry. While this massive consumer spending on sports has enabled team owners and leagues to make massive profits and thus, wield tremendous political influence, no group is more underrepresented in the public policy arena than sports fans.

Mr. Chairman, unfortunately, professional sports in America has become a glorified real estate scam, where individual owners prey on fan loyalty in order to manipulate massive public subsidies toward private coffers using tools such as car rental excise taxes. These team owners play cities off one another, threatening to uproot teams from their fan bases and move them to a new city in order to get the public to approve hundreds of millions of dollars for new stadiums. Once the stadiums are built, owners raise ticket prices and black out the games if fans don't buy tickets. This continues to happen even though economists across the political spectrum agree that these stadiums provide little to no economic benefit to the community and are a tremendous waste of public money. These stadiums simply serve to increase the value of the sports franchise. (There is perhaps no more lucrative investment in the world than owning a professional sports team.)

6 Dan Steinberg, "Washington's sports identity reflects D.C. region's population makeup and growth," *Washington Post*, October 22, 2011.

Because sports fans and taxpayers are often blackmailed into paying for new stadiums in order to keep their favorite teams in town and often wind up paying these costs using rental car taxes, Sports Fans Coalition is please to offer our support for H.R. 2469. This legislation is long overdue and we urge you to support it.