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Summary

Major League Baseball and local proponents of a Portland team are demanding a government-financed stadium. The recent \$38.5 million PGE Park renovation debacle and national and international evidence indicate that a government-funded stadium would be bad for taxpayers, employees, consumers and businesses. Oregonians would be best served by a stadium built entirely with private investors' money.

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“Proponents of Major League Baseball in Portland should step up to the plate and build a stadium with 100 percent private capital.”

Stadium Costs: High and Wide

by Matt Roehr, CFA

Proponents of a “public-private” partnership contend Oregon won’t get a Major League Baseball (MLB) team if we leave the task to private investors. That might be a good thing for local taxpayers, consumers and companies.

For instance, there are opportunity costs to consider. If the recent PGE Park renovation had been left to the private sector, Portland taxpayers wouldn’t be drowning in red ink to the tune of \$38.5 million, the amount city officials spent on the project. That could have been \$38.5 million in lower taxes for downtown businesses. Businesses that might have reinvested the money to improve productivity, paid their employees higher salaries, paid out higher dividends or cut prices to attract more downtown customers.

On the other hand, what value-added public infrastructure project could have been undertaken with that money if the PGE Park renovation had been left to the preferable choice, the private sector? Road repairs and expansion, for example, come to mind. These private and government opportunity costs are not trivial and should not be overlooked in the rush to corral a Major League Baseball team with a primarily taxpayer-built \$350 million stadium.

Before her mayoral term is up, Vera Katz wants a commitment from MLB to move a team, preferably the Montreal Expos, to Portland. She will pay almost any price—with taxpayers’ money—to ensure this legacy. Like the PGE Park deal that is soaking Portland taxpayers, this one is happening mostly behind closed doors.

The Katz Administration is bending over backwards to meet MLB demands for a \$350 million stadium financed almost entirely by government—that is, built by taxes, government bonds and so forth. The Katz Administration is currently just \$6 million short of that total with only \$25 million estimated to come from charter seat sales (i.e., a non-tax source). In Katz’s own words, we do not want to “weigh down the prospective owner (of the team) with cumbersome debt payments on a new ballpark.” Yes, that’s right, shudder the thought that a private business *should pay* for its own facilities.

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The ultimate cost of the stadium is likely to be higher than \$350 million, however. There are several reasons for this. One is the tendency for politically driven projects to underbudget in order to get voter approval and then overspend after the fact.

A study of 258 public works projects, published in the June 2002 *Journal of the American Planning Association*, found that actual costs of public works projects are on average 28 percent higher than estimated costs. If past is prologue, this would indicate that a Portland MLB stadium may top out at approximately \$448 million.

Another reason the stadium is likely to exceed the estimated \$350 million figure is simply the march of time and the inherent escalation in the price of ever more grandiose ballparks paid for with other people's money. In a 1999 Cato Institute report, Raymond J. Keating reviewed the cost of stadiums built over the last 100 years, dividing them into three categories: 100 percent privately built (the norm before 1960), 100 percent taxpayer built and those in between.

Keating's data indicates that the real cost to build a baseball stadium has increased by approximately 2.4 percent a year since the advent of primarily taxpayer-financed stadiums in the early 1960's. This analysis indicates that a Portland stadium with a target completion around 2007 could ultimately cost north of \$450 million when finished. Whether a government financed stadium would be under budget or over budget does not matter. The government, undertaking endeavors in which it has no business, is not excused by being thrifty.

There are also doubts that actual funds raised will approach projected funding sources. In a June 13 article, *Oregonian* journalist Ted Sickinger highlighted fallacies behind the preliminary plan to fund the stadium. He wrote, "A close look at the projections and their underlying assumptions shows that the finance committee's facts are held together by what some see as a liberal dose of optimistic guesswork." Similarly optimistic projections by PGE Park's operators left the City of Portland (read taxpayers) saddled with \$2 million in unpaid bills.

Private investors build multi-million and billion dollar casinos in Las Vegas. Donald Trump constructs projects of the same magnitude with private money. Proponents of Major League Baseball in Portland should step up to the plate and build a stadium with 100 percent private capital. That would be a home run for local consumers, taxpayers, employees and businesses.

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