**“REPEAL TAX-EXEMPT BOND FINANCING OF PROFESSIONAL SPORTS FACILITIES”**

Notes of Obama Administration FY16 Budget Proposal

*General Explanations of the Administration’s Fiscal Year 2016 Revenue Proposals*

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## Current Law

- Bonds are classified as Private Activity Bonds (taxable) if they meet the two (2) part test:
    - More than 10% of proceeds are used for *private business use*,
    - AND, the debt service on more than 10% of proceeds is *payable or secured* from property or payments derived from *private business use*.
- Tax Exempt Bonds are allowed if either of the two-part tests is NOT met.

## Proposed Law

- Eliminate the private payment test for professional sports facilities.
- If more than 10% of the facility is used for private business use then stadium does not qualify for tax exempt financing.

## Reasons

- Current law allows the transfer of benefits of tax exemption to private owners.
- Creates an “artificial financing structure” to avoid violating the private payment test.
- Excessive amounts of tax exempt bonds are issued to compete for, attract and to retain pro sports franchises.
- Shifts risks and costs from private to public sector.

## Financing Comparison: *Taxable versus Tax Exempt Debt Service Estimates*

- ✓ **Based on $100 million, 30 year amortized, AA- rated revenue bond issue with level debt service.**

- ✓ *Note: The difference in interest rates between taxable and tax exempt is a generic estimation based on current market pricing and trends and is subject to change.*

- ✓ Average Annual Debt Service (millions):
    - Taxable (5%): $6.6
    - Tax Exempt (4%): $5.8

- ✓ Gross Debt Service (millions):
    - Taxable (5%): $193
    - Tax Exempt (4%): $172