February 2025

Game changer: stadium financing trends are evolving

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Increasingly, stadium projects are becoming anchors in larger mixed-use and entertainment districts that incorporate infrastructure improvements that extend beyond the facility. While many might think debt issued for a stadium would be solely backed by revenues generated from its operation, bonds issued in connection with stadiums are often secured by a variety of stable tax revenues streams that warrant investment grade ratings.

BY THE NUMBERS

- $33 billion: state and local government funding of new construction of major league sports venues between 1970 and 2020.[1]
- $13 billion: public subsidies proposed for professional sports teams in 12 U.S. cities in 2024.[1]
- 65,000 to 75,000: average attendance at a National Football League (NFL) game.
- 40%: median percentage of project costs covered by public spending since 2020 (when public contributions are a financing component).[2]
- 30 years: average useful life of a stadium facility.[3]

MUNI BONDS CONNECT WITH AMERICANS' LIVED EXPERIENCE

The Nuveen munis in your community series explores the connection between effective muni bond investing and Americans' lived experience. Nuveen's muni credit analyst team – one of the industry's largest and longest tenured – constantly assesses the impact of the trends that influence muni credit quality across all market sectors.

Municipal bonds are a foundational element in Nuveen's proud heritage of investing to support public purpose – and an asset class that touches the everyday lives of all Americans. Munis fund essential infrastructure for state and local government; K-12 schools, colleges and universities; roads and airports; hospitals; water and sewer utilities; housing and more.

Our research identifies what we believe are attractive investment opportunities. It also yields practical insights into what individuals can expect when it comes to the availability, operation and cost of services used daily – things like the price of an airline ticket or a hospital visit, the health of regional transportation options, the quality of local school systems or the dependability of critical utilities.

A SUPER BOWL-LEVEL STADIUM FINANCING

Super Bowl LVIII, played in February 2024, was the most watched broadcast in history, averaging 123 million viewers across all platforms. Estimates indicate that 120 to 130 million viewers will watch the NFL championship game in 2025. As well as viewers across the country glued to their televisions or streaming devices, more than 75,000 fans will gather at the Caesars Superdome in New Orleans to watch the Super Bowl in person.

The Superdome was originally built in 1975 and famously housed refugees during Hurricane Katrina in 2005, when the facility suffered damage and flooded. The federal government (through the Federal Emergency Management Agency, or FEMA), the state, the NFL and the Louisiana Stadium and Exposition District came together to contribute to finance the repairs. More recently, the stadium has undergone modernizing renovations. The project was financed through a partnership between the state of Louisiana, the New Orleans Saints (NFL) and the Louisiana Stadium and Exposition District.

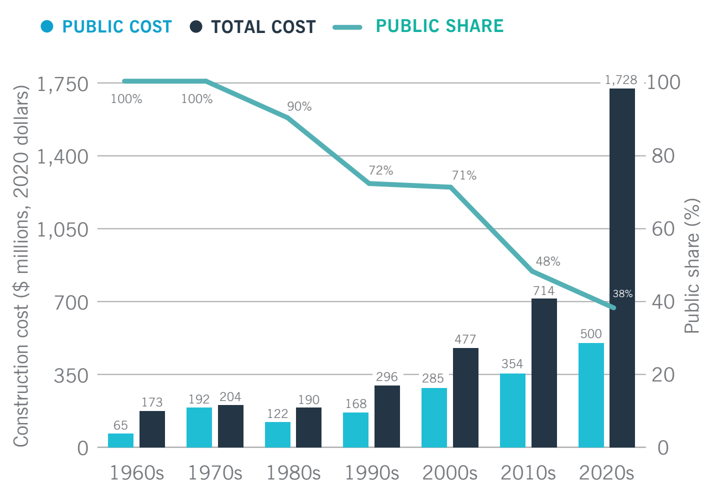
STADIUM FINANCING HAS A LONG HISTORY IN THE U.S.

Caesars Superdome is a recent example of the long history of public financing for professional sports stadiums in the U.S. going back to the 1930s. Previously, most facilities were privately financed. But financing demands increased as older wooden stadiums were replaced with more durable steel and concrete structures. Nearly all professional sports stadiums were constructed predominantly with public dollars through the 1970s.

Cost sharing became more prevalent in the 1980s. By 1990 to 2000, the median share of stadium construction costs for municipalities dropped to about 70%. This figure fell to roughly 50% in the 2010s and is now closer to 40%.

Despite the median share falling, the actual dollar amount of public funding support has increased (Figure 1). For the four major professional sport leagues – NFL, National Basketball Association (NBA), Major League Baseball (MLB) and the National Hockey League (NHL) – the median amount of public funds contributed to stadium construction has risen from $168 million in the 1990s to $500 million in the 2020s.[2]

Figure 1: Public funding represents a smaller percentage of the total, but dollar amounts are increasing



Data source: Taxpayers Shoulder a Heavy Burden for Sports Stadium Subsidies (https://taxfoundationorg/blog/sports-stadium-subsidies-taxpayers/#:~:text=To%20pay%20for%20stadium%20subsidies,construction%20of%20these%20sports%20stadiums)

Municipal bond financing has become a significant component of these projects, often because modern stadiums are viewed as important to local economies. They've become mixed-use anchors in larger entertainment district projects, surrounded by retail, bars, restaurants, hotels and housing.

More often than not, public funding for stadiums helps provide the wraparound infrastructure needed for these large-scale projects, like roads, public transit connectivity, and utilities, such as water and sewer system expansions.

This essential infrastructure is typically addressed in the initial phases of development for large stadium projects, before comprehensive planning can begin. Transportation is vital to increase capacity and reduce congestion for game days and other events, while also spurring additional development along its path.

For example, the Chicago Bears' (NFL) proposed stadium project has a comprehensive infrastructure plan estimated to cost $1.5 billion. It includes transportation improvements necessary to open the stadium, such as new roadways and utilities as well as an expanded bus depot.[4] Supportive public infrastructure can be critical to promoting economic development around a stadium, which provides incentive for public support.

EACH STADIUM PROJECT IS UNIQUE

The cost to build most modern professional sports stadiums has skyrocketed over the last decade into the billion-dollar range. Projects have required new and innovative financing structures that incorporate a variety of capital sources. Most stadiums are funded with a combination of both public and private resources, which reduces risk.

The most common form of public subsidy for stadiums is issuing tax-exempt municipal bonds. Tax-exempt financing helps lower the overall cost burden of these large-scale projects and diversifies the capital stack.

Certain public purpose thresholds must be met to qualify for tax-exempt muni bond financing. Stadium bonds must be structured so that no more than 10% of the bond proceeds can be exclusively used by the private entity associated with the stadium and no more than 10% of debt service is secured by property used by that private entity.[1] This is referred to as the private use-case test. Given this stipulation, some cities decide to primarily cover public infrastructure associated with the construction of a stadium, such as roads, utilities and other common surrounding infrastructure.

Investors in bonds issued to finance professional sports stadiums can have confidence that these bonds are often secured by stable public tax revenue sources. Bonds issued to pay for professional stadiums are commonly secured by multiple revenue streams such as general tax revenues, tax revenues generated at the stadium, special taxes specifically approved for the project and tax increment financing.

Some cities and counties may provide a real estate tax exemption, with the municipality owning the facility and leasing it to the teams that play there. Typically, these payments are structured as payments in lieu of taxes (PILOT payments). Municipalities often use various forms of tax revenues that may be generated by adjacent businesses, like sales and hotel taxes, to pay debt service for a portion of the project.

ARE WE EXPERIENCING A STADIUM BOOM?

Since 2000, state and local governments have committed $19 billion – or about $330 million per facility – to fund new major league professional sports venues.[3] Most modern stadiums have run their course after 30 years, when the high costs of renovations and maintenance begin to compete with new facilities that can lure teams away from their current city. Often public funding is viewed as necessary to incentivize a team to stay or relocate. The specter of teams moving can be a catalyst for a new financing deal.

Multiple NFL stadiums are currently being built or renovated, with municipalities contributing public funding into the overall capital stack. In addition to these ongoing projects, many other NFL teams are contemplating future locations for their next stadium venture. In 2024 alone, more than $13 billion was proposed in public subsidies for professional sports stadiums (Figure 2).[1]

Of course, proposed funding or team requests do not guarantee any public commitments. But the magnitude of demand indicates municipalities will continue to consider opportunities to partner with teams for the foreseeable future (Figure 2).

Nashville, TN – Tennessee Titans (NFL)[5]

The Nissan Stadium for the Tennessee Titans represents the largest taxpayer funding of a stadium in U.S. history. The new stadium, expected to open in 2027, is estimated to cost $2.1 billion. It will be funded by $500 million in general obligation bonds issued by the state and $760 million in special tax and non-tax revenue bonds issued by the Metropolitan Government of Nashville and Davidson County.

The bonds issued by the Metropolitan Government included four series of bonds, each with its own unique security structure ultimately backed by a combination of hotel taxes, in-stadium sales taxes, ticket taxes, team rental payments, water and sewer PILOTs, and non-ad valorem taxes. The remaining costs, including any cost overruns, will be covered by Titans' team ownership.

Buffalo, NY – Buffalo Bills (NFL)[6]

The Highmark Stadium, a new home for the Buffalo Bills, is being financed through public funding, loans and Bills' team ownership. The state has contributed $600 million and will own the stadium.

Erie County is issuing municipal bonds for its $250 million contribution to the project and is nicknaming them "Bills Bonds." The bonds are general obligations of the county, backed by the county's full faith and credit pledge, or the county's ad valorem property tax pledge. The stadium is expected to open in July 2026.

Jacksonville, FL – Jacksonville Jaguars (NFL)[7,8]

Construction is expected to begin in February 2025 on a $1.4 billion renovation of the 29-year-old EverBank Stadium for the Jacksonville Jaguars. The deal includes $775 million in public funding from the City of Jacksonville and $625 million from team ownership.

Figure 2: Many professional sports franchises are contemplating future locations

State	Team	League	Proposed subsidy
Illinois	Chicago Bears	NFL	$2.4B
	Chicago White Sox	MLB	$1.0B
Florida	Jacksonville Jaguars	NFL	$1.5B
Pennsylvania	Philadelphia 76ers	NBA	$0
	Philadelphia Flyers	NHL	$0
Washington, D.C.	Washington Commanders	NFL	$1.0B
	Washington Capitals	NHL	$1.0B
	Washington Wizards	NBA	$1.4B
Ohio	Cleveland Browns	NFL	$600M
	National Women's Soccer League expansion team	NWSL	$90M
California/Nevada	Oakland/Sacramento A's	MLB	$380M
Florida	Tampa/St. Pete Rays	MLB	$2.4B
Missouri/Kansas	Kansas City Chiefs	NFL	$1.7B
	Kansas City Royals	MLB	$1.7B
Arizona	Phoenix Coyotes	NHL	$208M
Missouri	St. Louis Cardinals	MLB	$600M
New York	New York City Football Club	MLS	$780M
Tennessee	Memphis Grizzlies	NBA	$350M

Data source: Public funding for sports stadiums: A primer and research roundup (https://journalistsresource.org/economics/sports-stadium-public-financing/)

The City of Jacksonville expects to issue general obligation bonds for reimbursement for money spent as part of its capital improvement plan. The deal also includes a $300 million Community Benefits Agreement (CBA), the largest in NFL history, split equally between the city and the Jaguars. The CBA will include workforce development, affordable housing, park and recreational facility improvements, and programs and facilities for youth sports. As part of the deal, the Jaguars will agree to sign a 30-year lease and non-relocation agreement.

WHAT IS A COMMUNITY BENEFITS AGREEMENT?

A community benefits agreement is a contract between developers and municipalities/local community groups that secures certain benefits from the developer while mitigating the impacts of large-scale infrastructure projects. The agreements tend to meet specific needs of the host community and can combine monetary and non-monetary benefits, including hiring local residents for the project and setting wage levels.

For example, the Buffalo Bills franchise agreed to make an annual community investment of $3 million per year for over 30 years to fund projects benefiting Erie County, NY, alongside their new stadium. The agreement also includes language that fosters workforce inclusion/diversity and living wage requirements, as well as social justice and mental health initiatives.

ATTENDANCE AND ASSET PERFORMANCE ARE SECONDARY CONCERNS FOR BONDHOLDERS

Investors might assume ticket sales and game-day attendance are critical for stadium financing bonds, but the opposite is true. Debt service payments for most stadium bonds are protected from attendance and asset performance. In fact, professional sports teams occasionally relocate, leaving behind empty stadiums, but debt service payments on the bonds continue to be made as revenues that secure stadium bonds are pledged regardless.

For example, the St. Louis Regional Convention and Sports Complex Authority issued annual appropriation bonds to construct the Edward Jones Dome, previously home to the St. Louis Rams (NFL) from 1995 to 2015. A portion of the St. Louis stadium bonds remained outstanding when the Rams moved to Los Angeles in 2016. The city, county and the state continued to appropriate for debt service until the bonds were fully repaid in 2021.[11]

Some stadium bonds are secured by narrower and inherently more volatile revenue sources like sales, hotel or car rental taxes. Payments on these bonds are at somewhat greater risk, as they depend on growth in economic and tourism-related activity. The pandemic upended travel and highlighted the vulnerability of tourism-related taxes, but demonstrated the strength of bondholders' security pledges in several instances.

Clark County, NV, tapped a debt service reserve (DSR) fund twice in 2021 to make payments on the bonds for Allegiant Stadium in Las Vegas.[12] Similarly, the Atlanta Development Authority used its DSR in 2021 to make debt service payments on the bonds issued to construct the Mercedes-Benz Stadium.[13]

Reserve fund draws demonstrate the severity of hotel tax revenue declines during that time period, as well as the importance of bondholder security covenants. DSR funds work as an additional security measure for bondholders. If brief economic downturns or other unexpected events affect pledged revenues, DSR funds can help timely debt service payments continue to be made without disruption.

CONTROVERSY SURROUNDS PUBLIC FUNDING FOR STADIUMS

Many stadium projects are high profile, especially for sports teams with a large and engaged fan base. Public funding is often made available based on the belief that a new stadium will generate economic growth, create jobs and increase tax revenues. This should create a spillover effect for the local economy that exceeds the cost of the subsidies provided by taxpayers. However, many economists have argued that the economic impact often falls short of overly optimistic projections. Studies have demonstrated that stadiums may shift regional economic activity, but don't necessarily increase overall economic growth.

Despite the opposition, many team owners continue to angle for additional public subsidies to support new stadium projects. This is partly due to the evolving nature of stadiums in which the surrounding infrastructure includes mixed-use developments including bars, restaurants, retail and hotels.

One recent success story is the Battery in Cobb County, GA, home to the Atlanta Braves (MLB). The $1.3 billion mixed-use development opened in 2017 and was funded with $300 million in municipal bonds. The Chief Financial Officer of Cobb County touted the development's success, noting that the increase in property values around the ballpark more than exceeded the amount of property taxes needed to contribute to debt service on the bonds.[14]

Some municipalities use a referendum process to let voters weigh in on whether tax revenues should be used to keep a team local. In April 2024, voters in Jackson County, MO, voted against a new sales tax measure that would have funded a new ballpark for the Kansas City Royals (MLB) and major renovations at Arrowhead Stadium, the home of the Kansas City Chiefs (NFL). Taxpayers voted down a proposal to extend a 3/8 cent sales tax to support half of a $2 billion plan to complete these projects.[15] The teams' leases run through 2031, and alternate public funding ideas will likely be put forward to keep the teams local and the facilities updated.

MUNICIPAL BONDS OFFER A LOW-COST ADDITION TO THE CAPITAL STACK

Public subsidies for professional sports stadiums have existed for almost a century alongside the municipal tax exemption, which has incentivized states and local governments to fund infrastructure across the country. As stadiums have evolved from discrete projects to anchors for larger overall developments, public subsidies have increased in tandem with the expected associated economic impact these large-scale projects have on their local communities.

Despite critics opposed to public dollars being contributed to stadium financings, proposed public subsidies are approaching record levels as another wave of stadium construction appears imminent. Municipal bonds continue to offer a low-cost addition to the capital stack for most stadium financing structures, while providing long-term, high-grade investments for investors.

For more information, please visit nuveen.com.

Endnotes

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