Protecting Detroit’s Taxpayers: Stadium Finance Reform Through An Excise Tax

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Thesis
Detroit should adopt an excise tax on any large-scale development project that receives targeted subsidies from state or local governments in order to discourage these schemes and raise funds for the city’s struggling emergency services, health care, and education systems.

Background Analysis
In April 2016, Dan Gilbert, real estate mogul and owner of the Cleveland Cavaliers, along with Tom Gores, owner of the Detroit Pistons, presented a joint project to invest $1 billion in a sports and entertainment district in downtown Detroit. The proposal includes a new sports stadium in order to attract a Major League Soccer team to the city. Gilbert’s stated intent is to revitalize an area damaged by economic turmoil and the bankruptcy of the municipality in 2013. For that project, a special bill was passed by the state of Michigan to enhance the ability of the Downtown Development Authority (DDA) of Detroit to capture property taxes of residents in a specific downtown area and direct the funds towards the new stadium. This bill funneled roughly $280 million of taxpayer money into the Red Wings’ arena, and the money seized by the DDA caused a shortfall in city and county budgets; most notably in the state’s School Aid Fund. Considering the history of Detroit’s public services financing, and the limited economic gains of a new sports stadium for the city, the use of taxpayer money should be limited for Gilbert and Gores’s plan.

Talking Points
- The consensus among academic studies remains that there is no positive correlation between the construction of sports stadiums and local economic development or income growth.
- In 2012, the Michigan Legislature authorized the redirection of school-tax funds to economic development plans, resulting in $12.8 million worth of Michigan’s School Aid Fund being funneled into stadium construction costs.
- In Michigan especially, economic development plans do not outpace projected job creation figures. Only 2.3 percent of economic development deals from the Michigan Economic Authority have exceeded job creation estimates.

Policy Idea
Drawing on former U.S. Congressman David Minge’s Distorting Subsidies Limitation Act, this policy would enact an excise tax on those who derive benefits from targeted subsidies. The prevalence of these subsidies in Detroit has drained the funds of public schools and other critical public services. By enforcing this tax on gains from ventures supported by targeted subsidies, Detroit would replenish these depleted funds. This policy could be executed through ballot measure, in accordance with recent...
Policy Analysis
Previous calls to action in regard to the alarming patterns of stadium financing in Michigan have largely revolved around policy in the state legislature. While these efforts are made with earnest intention, the reality is that, in its current state, Michigan’s legislature is doing more to exploit taxpayers than help them when it comes to stadium financing. Most recently, a bipartisan proposal was made to redirect state sales and income taxes to economic development projects such as stadium construction. Consequently, statewide efforts to curb taxpayer funding of economic development fail. In particular, community benefit agreements would likely be unable to materialize at the statewide level. Furthermore, even if such agreements could be obtained, there is no guarantee of job creation or appropriate allocation of funds. The creation of a tax through ballot measure would empower the same citizens who have been routinely exploited in the past. Based on the unstable history of other proposed policies and Michigan legislature’s recent support for expanding taxpayer funding of economic development projects, the implementation of an excise tax will be the most effective method of protecting Detroit taxpayers and their public services.

Next Steps
Neil deMause, prominent journalist and outspoken critic of publicly financed stadiums, could be targeted as an ally to publicize this policy’s benefits to the people of Detroit. Further, local professor Frank Rashid, who has experience testifying in front of Congress on issues of stadium finance, could lend academic credibility to this measure. In order to get this measure on the ballot, the policy must be either petitioned for by the public or sponsored by a member of the City Council. Reaching out to community groups such as the Sugar Law Center will be necessary to garner general support for this policy. Once placed on the ballot, these groups and others can be used to attain the popular backing necessary to pass the policy into law.

End Notes
7 Bradley 2014.
13 Bradley 2014.
14 Ibid
15 Ibid
16 Skorup.