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Public debt for private entities in pandemic times

By Colin McNickle

What happens when, after tax dollars are dubiously conscripted for the benefit of private entities—and at the expense of the public weal—a pandemic hits?

Allegheny County taxpayers might be about to find out, concludes an analysis by the Allegheny Institute for Public Policy.

The Pittsburgh-Allegheny County Sports & Exhibition Authority (SEA) owns Heinz Field (home to the Pittsburgh Steelers), PNC Park (home to the Pirates), PPG Paints Arena (Penguins) and the David L. Lawrence Convention Center (home to not much of anything these days) on behalf of the public.

The construction of all four, using considerable public dollars, was the end-result of considerable political machinations that, to some degree or another, represented an end-around of the body politic's wishes.

Now, one way or another, the public is on the hook for a significant portion of the facilities' debt service in the form of nine outstanding bonds. Based on a year-end 2019 SEA audit, the principal outstanding on SEA bonds for all four facilities combined was $584.6 million. Total 2020 debt service on those bonds is $53.8 million.

So, how has the coronavirus affected debt service payments on the bonds? "The extent of the impact of the coronavirus on our operational and financial performance is currently uncertain and cannot be predicted," the SEA noted in that same audit.

The authority derives its income to pay debt service from a variety of sources. There are the sales tax revenues distributed through the RAD, the Regional Asset District. And then there are receipts from the hotel tax and parking revenues from these SEA-owned facilities. There's also income from gambling that's applied to the arena.

Not surprisingly, the coronavirus pandemic has led to major declines in collections. But the SEA says it is current on bond payments that were due as of Sept. 1 and says all bond payments due in November and December "will be made as designed."

But given how the pandemic's stranglehold continues to limit economic activity, "lack of fan attendance at these facilities will have a continuing impact on taxes collected by the city—including parking, amusement and facilities usage fee—and the county, including alcoholic beverage and hotel room rental," says Eric Montarti, research director at the Pittsburgh think tank (in *Policy Brief Vol. 20, No. 31*).

Of course, there are a few fail-safes built into the system, again at taxpayer expense. To wit, the state is obligated to cover the Penguins' rent if the franchise can't/doesn't cover debt service. And the RAD does the same for the Steelers (on a 2014 bond) at Heinz Field.

The RAD has cut allocations to other recipients—such as parks, libraries, the zoo and aviary and varied other organizations—but not to the SEA.

Additionally, Allegheny County's fiscal plan stipulates that convention center debt is first in line for statutory distributions from hotel tax proceeds.

"That means with very little or no business or economic activity the debt related to these facilities is still being paid and will be paid," Montarti says.

While the SEA appears to be in a stable position regarding bond payments, it is seeking federal grants of $6.2 million, state grants of up to $13 million and an unspecified grant from the county for aid for the facilities it owns.

"If those grants are approved, that could be even more frustrating to other recipients who may have to take reductions," Montarti cautions.

"It might also be frustrating to private-sector employees who have been furloughed or laid off while many large governments in the area have not taken such action," he concludes.

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