



WARRIORS & PUBLIC SUBSIDY: **THE BIG MYTH**

This paper was prepared by Rudy Nothenberg on April 31, 2013 and is based on the “Financial Feasibility Study” prepared by the Warriors and submitted to the Port Commission and Board of Supervisors in October 2012. That document remains, six months later, the only document available to the public regarding the financing of this development.

THE BIG MYTH: “IT’S ALL PRIVATELY FUNDED”

THE SAD TRUTH: THE CITY/PORT WILL PROVIDE A SUBSIDY OF UP TO \$180 MILLION (INCLUDING INTEREST) TO THE WARRIORS.

PUBLIC MONEY OR NO? – THE SUBSIDY

- The Warriors are demanding that Pier 30-32 be fully reconstructed – at Port cost – to a standard that will support the immense arena they want to build over Bay waters on the Pier.
- The cost of that pier reconstruction is estimated to be \$120 million.
- Every single penny of that \$120 million is public - the Port’s - money.
- The Port plans to borrow that money from -- guess who? The Warriors, of course! For the privilege of borrowing that money - for the Warriors benefit - from the Warriors, the Warriors are charging the Port an exorbitant interest rate of 13%. The *San Francisco Chronicle* has reported that these interest payments will be at least \$3.8 million per year.
- With the cost of interest paid to the Warriors and on the new Bonds the City will have to issue, the public will be subsidizing this “privately-financed” project by an amount of up to \$180 million or more.
- **That is why the claim that “it is all private money” is a myth.**

HOW DOES THE PORT/CITY PAY FOR THE SUBSIDY?

There are three ways in which the Port/City debt (\$120M plus interest) to the Warriors will be liquidated:

The “Sale” of Seawall Lot 330:

- The Port plans to sell this enormously valuable piece of waterfront **public** land across from the Pier for the Warriors’ high rise condo and hotel development. They do not offer the site to the highest bidder. Instead, they sell to the Warriors at a “negotiated” price.
- This negotiated value will be credited to the Port’s debt on the Warriors’ books. There is no reason for the Warriors to write a check to themselves.
- The “value” of this publicly owned site will simply vanish – disappear into thin air – rather than being available to the Port for public purposes.

The Tax Increment (Infrastructure Improvement) Bonds:

- These are bonds secured by the property (or possessory interest) taxes on the project. These taxes would, but for the need to find ways to repay the Warriors, go directly to the City’s General Fund for City purposes.
- The amount of bonds issued will depend on a variety of things including: the amount of tax increment estimated to be generated, the maturities decided on and the market conditions at the time. (Note that the interest costs of these bonds is in addition to the 13% interest rate owed the Warriors on the unpaid portion of the Port’s debt.)
- The property (possessory interest) taxes that would otherwise flow to the City Treasurer for use by the City are instead directed to the Warriors.

- Again, monies that would otherwise support City services such as police, fire and health care simply vanish into thin air.

The Rent Credit:

- After the money from the negotiated “sale” of the land for Condo/hotel/retail development has been turned over to the Warriors, and after the Warriors have been given all the proceeds of a property-tax supported bond issue, the Port will still owe the developers a huge amount of money, some \$40 to \$60 million.
- The City states that the Warriors will be given free rent on the publicly owned pier for long enough to pay off this remaining \$40-\$60M debt. The rental value is \$1.9 million a year.
- In fact, a debt that big, with any significant interest rate whatsoever (much less the 13% interest the Warriors are asking for) – will never be paid off with \$1.9 million of rent credits annually. Instead the debt will just keep growing. It’s voodoo arithmetic!
- Even if there were no – zero – interest on this remaining debt, it would still take 20 to 30 years, longer than the likely useful life of the arena – to pay off this remaining debt – during which time the Port collects no rent whatsoever.
- As we’ve seen, the “rent credit” story we’ve been handed does not work. But the City/Port still needs to pay off their remaining debt to the Warriors. If the City/Port were to pay off this debt early – at a discounted value – they would need to borrow yet another pot of money – issue more public debt with more interest payable by the public – on a deal that we are still being told is all “privately financed”.

SOME QUESTIONS TO ASK

Who Should Approve Borrowing \$120 Million?

- Most borrowings undertaken by the City – such as bonds – require a public vote. In this case the \$120 million borrowing (called an “advance”) is approved only by six members of the Board of Supervisors.
- If the City were to issue “General Obligation Bonds” it would require a 2/3 vote of the people. Such bonds would also carry a very low interest rate, not the 13% the Warriors want to charge the Port.
- If the City were to issue “Revenue Bonds” these would (with certain exceptions) require approval by a vote of more than 50% of the people. Such bonds would carry an interest rate of less than half of what the Warriors want to charge the Port.
- Why should this borrowing, for expenditures that should be paid for by the developer in the first place, require only the approval of a bare majority of the Board of Supervisors?
- Why don’t the Warriors go to the voters/ taxpayers to authorize such debt - like the Giants and the 49ers did?

Why \$120 Million?

- The only reason that so much money - \$120 million - needs to be borrowed is the extraordinary cost of accommodating the weight of the proposed arena and its supporting facilities that the Warriors want to build on a platform over Bay waters.
- It would take only \$45 million to demolish the pier entirely and restore full access to the open water to the people of the City – and perhaps later to extend the new Brannan Wharf Park already being built adjacent to the Pier 30-32 site.

- It would take far less than \$120 million to completely rehabilitate the Pier and the make it available on the open market to a developer who would use it for a project less environmentally destructive, providing more public benefits, and **likely to pay the Port some rent for the use of the Pier.**
- The differences between these numbers is the premium the Port has to pay (and borrow at 13% interest from the Warriors) to accommodate this particular use of the pier.
- There is no reason why the Port should have to pay for (and borrow) this additional sum of money.

Why Borrow From The Warriors At All? Why At 13% Interest?

- If it turns out that a public subsidy – of some amount – can be justified, then is the way the City/Port are going about raising the money the cheapest, most effective way to do so?
- Why does the City not use its credit – on behalf of the Port - to issue any such debt? The interest rate for a well secured public debt offering would be between 4%-7% rather than the 13% the Warriors want to charge the Port/City.
- The difference in rates over the life of the debt will make an enormous difference in the total interest the public will have to pay. And, there would be no risk to the taxpayers because the Warriors would have to begin paying rent immediately. Their rent payments together with the property taxes generated by the development would be more than enough to cover the debt payments.

The Sale Of Seawall Lot 330 – What’s Left On The Table?

- Why was this valuable property never offered for sale on the open market?
- Why, if the City is determined to sell it to the Warriors in a negotiated deal, are there not multiple appraisals by independent appraisers to verify that the price is indeed “fair market value” as required by law?
- Why is there not a new appraisal, based on what the Warriors expect to build on the site that assumes the Warriors will get all the zoning changes they are demanding in order to build their high rise condos and hotel?
- Why is the City/Port using an appraisal that will be several years old by the time the “sale” is concluded?

If A Public Subsidy Is Required To Attract The Warriors, Would It Be Less On Another Site?

- The subsidy that the public is providing to the Warriors to reimburse them for the extraordinary cost of the foundation of their building is \$120 million. How much less of a subsidy would be required if the arena were built on land – rather than over the water?

- The Pier 30-32 site that will house the arena, the private parking and commercial retail space is more than 13 acres – yet the arena itself needs but a fraction of that – less than 4 acres. The arena they are abandoning in Oakland sits on just on 3.3 acres. What would it cost to subsidize (or for that matter to buy) a piece of property on land and large enough to hold just the arena? Would it not be less than \$120 million?
- Would not a subsidized (if necessary) land acquisition of less than 4 acres - for just the arena footprint - not only be likely to cost less than \$120 million, could it not also avoid all the environmental damage the over-the-water site causes?
- The only MUNI lines that pass the proposed arena site on Pier 30-32 are the N-Judah and the T-Sunnydale lines. Service on these lines is already inadequate. And, before too long, the T will no longer serve the arena directly, leaving the N the only stop directly at the site. There will be a significant cost to MUNI to prevent the N line service from deteriorating further as it carries the added loads to and from the arena. Would not a site served directly by more than one MUNI line be more cost effective for the City? And also for the present patrons of the N line?