



**STOP
THE ARENA**



Coalition to Stop the Arena at Potomac Yard

March 4, 2024

The Honorable L. Louise Lucas
Chair, Finance & Appropriations Committee
Senate of Virginia
General Assembly Building, Room 1404
Richmond, VA 23219

The Honorable Luke E. Torian
Chair, Appropriations Committee
Virginia House of Delegates
General Assembly Building, Room 1223
Richmond, VA 23219

**RE: Responding to Governor Youngkin's Inaccurate and Misleading March 1
Conferee Letter**

Dear Chair Lucas, Chair Torian, and Conferees:

On behalf of the Coalition to Stop the Arena at Potomac Yard ("Coalition"), we write to respond to several inaccurate and misleading statements made by Governor Youngkin about the Potomac Yard arena in his March 1 letter to you regarding his priorities in the ongoing budget conference negotiations.ⁱ The Coalition is a grassroots organization that advocates on behalf of the thousands of Alexandria and Arlington residents who would be directly impacted by the arena, the Virginians who will be negatively affected by an investment of this scale by the Commonwealth, and a bipartisan group of national advocacy groups, all of whom oppose the proposed arena deal.ⁱⁱ

First, the Governor's letter claims that the proposal is "a unique, first-of-its-kind partnership to bring two professional sports teams to Virginia." In fact, the only things unique about this proposal are its scale – it would be the largest arena subsidy of its kindⁱⁱⁱ – and its scope. Its financing relies on previously untapped funding streams including the

corporate tax that businesses would pay to operate at the arena, the personal income tax paid by workers employed at those businesses, and real and personal property taxes from property located within the proposed arena district.^{iv} Using these funding streams would divert needed tax revenue from priorities such as schools and roads to pay for debt service and other costs associated with the arena,^v further enriching its billionaire owner and his foreign co-investors.^{vi}

This is also not a “first-of-its-kind partnership.” Professional sports teams have for decades lobbied for public subsidies to support the construction of stadiums and arenas. The playbook teams and sports leagues use to win these subsidies has been remarkably similar in state after state and city after city. They dangle the carrot of economic development, and associated tax revenues, while implicitly or explicitly threatening to move beloved local teams to other cities if their extortionate demands are not met. Indeed, this is reportedly the very threat Monumental Sports & Entertainment is acting upon as they seek to exit their lease on Capital One Arena in Washington, D.C.^{vii}

The consensus of decades of economic analyses supported by independently-produced and peer-reviewed evidence show that publicly-funded stadiums and arenas do not produce the economic development benefits their promoters repeatedly claim.^{viii} Close examinations of the Governor’s deal with Monumental Sports & Entertainment (“MSE”) have shown that it is not markedly different from the dozens of similar deals that came before it in other cities and states in terms of its economic outlook projections. ^{ix} It is therefore unlikely that this deal will achieve its inflated job creation, economic development, and tax revenue generation goals.^{xi}

The Governor’s letter goes on to state that his Administration has been working with you and your staff to provide “up-to-date and accurate information” about the project. Unfortunately, getting accurate information about this project has been a monumental challenge for concerned citizens,^{xii} the media,^{xiii} and even members of the General Assembly^{xiv} ever since this project was announced less than three months ago. When information has come to light, often only after months of requests and in redacted form,

independent analyses have painted a troubling picture about the credibility of claims made by the arena's promoters.^{xv}

The credibility of the information provided by the Youngkin Administration about the arena is further called into question by the numerous potential conflicts of interest that exist between stakeholders in the deal. For example, JP Morgan, which has been advising the Commonwealth on deal,^{xvi} is also reportedly an advisor to the private pension fund that owns the land where the arena would be built.^{xvii} The Governor himself is also reportedly a co-investor with MSE Managing Partner Ted Leonsis^{xviii} and the Saudi government^{xix} in the Professional Fighters League, a potential user of the proposed arena.

Next, and perhaps most importantly, the Governor's letter states that "the financial projections supporting this project are strong, and we have repeatedly confirmed this project will not impact Virginia's sterling AAA credit rating and debt capacity." This statement stands in contrast with the analysis provided by the Public Resources Advisory Group ("PRAG"), a consultant hired by the Commonwealth. The PRAG analysis concluded that backstopping nearly \$577 million in debt could create "reduced debt capacity and flexibility for other projects" depending on how the debt was categorized by budget officials.^{xx}

If the Governor is confident in this key measure of risk to the Commonwealth's AAA rating, he should publicly release reports provided by the Commonwealth's financial advisor so that those claims can be independently verified.^{xxi} To date, as far as we know, he has not. Instead, the Governor is essentially asking the General Assembly and the millions of Virginians you represent to "trust us" with a \$1.5 billion investment of public funds.^{xxii} That is not a prudent way to evaluate proposals to use Virginians' debt capacity, no matter the size of the project.

Finally, the Governor's letter repeats the oft-cited claim that his proposal "creates 30,000 jobs and generates over \$12 billion in economic contribution, above all required debt service, including \$7 billion to the state." Such claims, which have been repeated *ad*

nauseum, since the deal was first announced, lack credibility. This is because they are based on a report commissioned by the Alexandria Economic Development Partnership (AEDP) from sports stadium consulting firm HR&A Advisors. As the report (which was until recently only available in a heavily redacted format) notes, it is based on “proprietary” MSE data and relies on the IMPLAN economic impact model. The IMPLAN model has been widely criticized for overstating the potential economic impacts of publicly subsidized projects like the proposed arena while minimizing the potential costs.^{xxiii xxiv}

A leading sports economist who reviewed the HR&A report found it to be “a fantasy document designed to give the appearance of an economic rigor when it is just gobbledygook of meaningless nonsense that serves as a pretense for claiming a large economic impact.”^{xxv} The HR&A report also does not disclose that its sponsor has a significant conflict of interest. AEDP Board member AJ Jackson is also an executive vice president at JBG Smith, the real estate investment trust that would develop the proposed arena site.^{xxvi} The lack of independence, controversial economic model, opaque methodology, and significant conflict of interest inherent in the HR&A report severely undermines the credibility of any job creation and economic impact claims, including the Governor’s, that are based on its findings.

The longer the public and independent analysts get to consider the evidence presented about the proposed arena deal, the worse it looks for the Commonwealth. We urge you to heed the many voices in Alexandria, Arlington, and throughout Virginia that want you to oppose including funding for the arena in the Commonwealth's budget. It is time to close the book on Governor Youngkin’s vanity project at Potomac Yard once and for all.

Sincerely,

Adrien Kay Lopez, Andrew Macdonald, Shannon Curtis, Dan Heng, co-founders, Coalition to Stop the Arena at Potomac Yard

John Breyault, National Consumers League

Brian Hess, Sports Fans Coalition

Patrick Hedger, Taxpayers Protection Alliance

cc: The Honorable Governor Glenn Youngkin
The Honorable Terry Austin
The Honorable Rob Bloxom
The Honorable Jennifer Boysko
The Honorable David Bulova
The Honorable Betsy Carr
The Honorable Creigh Deeds
The Honorable Mamie Locke
The Honorable Ryan McDougle
The Honorable Todd Pillion
The Honorable Mark Sickles

ⁱ Martz, Michael. "Youngkin challenges budget negotiators on tax cuts, K-12 spending," *Richmond Times-Dispatch*. (March 2, 2024) Online: https://richmond.com/news/state-regional/government-politics/youngkin-tax-cuts-arena-k-12-budget-general-assembly/article_7c42ac02-d7fc-11ee-b317-339259aad13a.html (See: Attachment A)

ⁱⁱ For more information, visit <https://stopthearena.org>.

ⁱⁱⁱ O'Connell, Jonathan, *et al.* "Caps, Wizards complex in Virginia could get largest arena subsidy ever," *Washington Post*. (December 15, 2023) Online: <https://www.washingtonpost.com/dc-md-va/2023/12/15/capitals-wizards-potomac-yard-arena-finances-virginia-dc/>

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^v Capps, Kriston. "Virginia Pitches Unprecedented Arena Financing Source: Personal Income Taxes," *Bloomberg*. (February 17, 2024) Online: <https://www.bloomberg.com/news/articles/2024-02-17/plan-to-move-washington-capitals-wizards-to-virginia-funded-with-income-tax>

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ATTACHMENT A



COMMONWEALTH of VIRGINIA

Office of the Governor

Glenn Youngkin
Governor

March 1, 2024

The Honorable L. Louise Lucas
Chair, Finance & Appropriations Committee
Senate of Virginia
General Assembly Building, Room 1404
Richmond, Virginia 23219

The Honorable Luke E. Torian
Chair, Appropriations Committee
Virginia House of Delegates
General Assembly Building, Room 1223
Richmond, Virginia 23219

Dear Chairwoman Lucas, Chairman Torian, and Conferees:

Thank you for joining me at our traditional conferee breakfast. As I said this morning, this session is historic, and I am honored to work with you on behalf of our 8.7 million shared constituents. Consistent with historical practice, this letter addresses a few specific areas that I would like to highlight for your consideration as you begin your most important work as budget conferees.

I want to thank you in advance for the tremendous effort you and your staff will invest to complete the budget. The budget's importance to Virginians is clear, and please know I appreciate your hard work and expertise. I add my appreciation for your partnership as we have agreed budget bills each of last two years. We worked as Senators and Delegates, as Democrats and Republicans, bridging gaps, funding critical priorities, and reducing the cost of living. We found common ground across many areas. Let me highlight two:

- (1) **Together, we provided \$5 billion in tax relief for working families that made Virginia more affordable and lowered the cost of living¹.** Our work has made Virginia more attractive in the competition to attract companies and families into the Commonwealth and has slowed the net out-migration. With tax relief and pro-business policies such as record investment in business ready sites, streamlining permitting processes, and consolidation of workforce programming, the Commonwealth has 220,000 more Virginians working today versus two years ago, placing us 3rd among the states in the nation for job growth since then. This progress is the direct result of our collective work.

(2) Our collaboration resulted in historic investments in K-12 education. We worked together to enact record-breaking budgets that provided \$4 billion additional education funding, the largest investment in the Commonwealth's history. Since 2022, substantial investments have been made in teacher compensation – the Commonwealth funded 17% pay increases and lifted per student funding 40% over 2020. Our \$1.25 billion investment in school construction loans and grants last biennium, and the dedication of a new, ongoing revenue stream from casino taxes, have supported this critical education priority. So too, we came together to tackle pandemic learning loss, advancing high-dosage tutoring, promoting literacy, and tackling chronic absenteeism with \$418 million in our last budget to fund the ALL In Virginia plans embraced by every school division. Thank you for your partnership on K-12 education.

These, plus the many other shared successes, lay the foundation to continue our collaboration and reach a timely bipartisan budget agreement. I believe that we can find common ground to further advance our Commonwealth by, among other areas, (1) working to lower the cost of living for Virginians, (2) investing in education, including providing teacher salary increases, (3) supporting law enforcement needs across the Commonwealth, (4) responsibly investing in state government information technology modernization and real estate optimization, and (5) supporting economic development and job growth.

Keeping Virginia Affordable and Lowering the Cost of Living

Over the last two years, we made significant strides to reduce the cost of living for hardworking Virginians. Our work doubled the standard deduction, eliminated the regressive state tax on groceries and personal hygiene products, introduced a refundable tax credit for low-income families, supported veterans by eliminating the tax on the first \$40,000 of their retirement income, and returned nearly \$1,000 in rebates to Virginia families. This work all speaks to our shared commitment to provide tax relief tailored to and for working Virginians. As legislation that would have made our standard deduction increases permanent was defeated, this shared priority is a critical aspect of the final budget.

My introduced budget continued this multi-year effort to lower the cost of living, with rate reductions, protections for lower income Virginians, and modest sales and use tax broadening / increases to offset a portion of the costs. As I expressed in the State of the Commonwealth, this proposal was a package deal. Incorporating the tax increase without the tax decreases is not something that I could agree to. I do hope we can work in this budget and over this next year to reform our tax code to lower the cost of living.

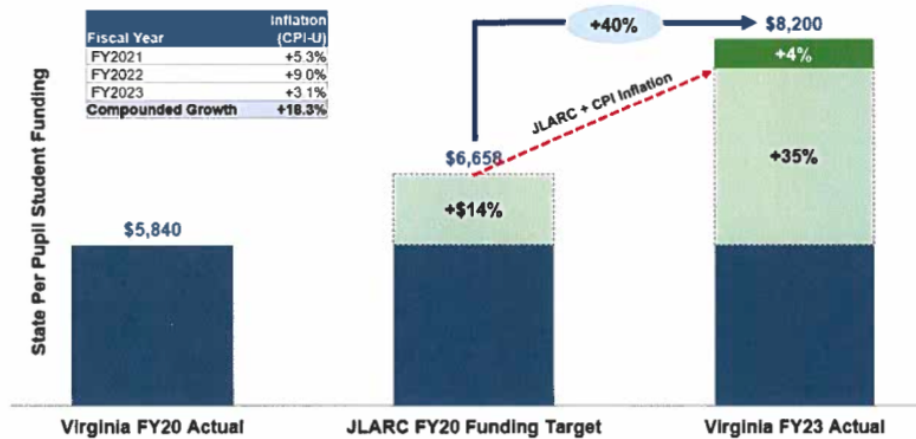
Meeting Our Commitment to Virginia's Students

We have no greater shared priority in the Commonwealth than fulfilling our Constitutional and moral obligation to provide a quality education for our students. To that point, I fear that outdated data sources are distracting us from recognizing the significant progress that we have made together since 2022.

The July 2023 Joint Legislative Audit and Review Commission (JLARC) Report on Virginia's K-12 Funding Formula misses the significant investments in K-12 education we have made. That report is widely cited as predicate for amendments to HB 30 and SB 30.

The 2023 JLARC report, using FY2020 data, estimated that every Virginia student was underfunded by 14%. Our collective work, starting in FY2023, increased per pupil appropriation by 40% over FY2020 levels. This 40% increase, which was entirely excluded from the JLARC report, closed the 14% funding shortfall with room to spare².

CLOSING THE PER PUPIL FUNDING GAP²



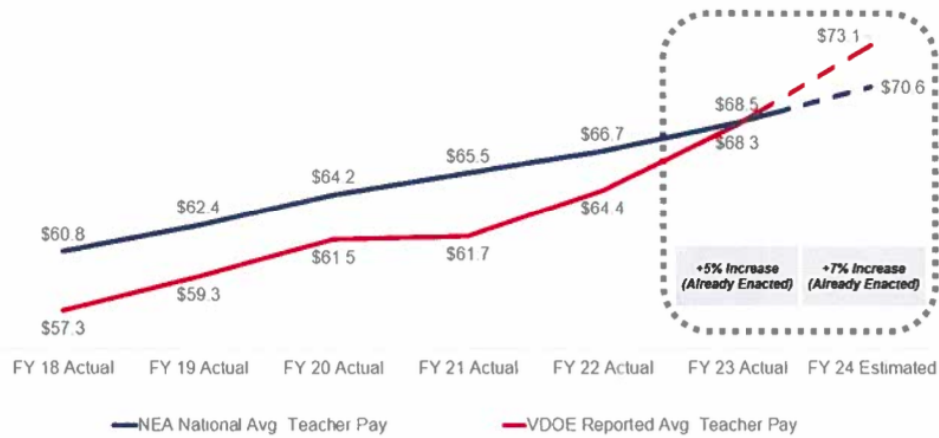
Of course, catching-up does not mean our work is complete. We must reform our byzantine, convoluted, four-decade-old formula for school funding. On this point, the JLARC report is right. In September of last year, the budget created a joint subcommittee of members of the House Appropriations Committee and Senate Finance and Appropriations Committee, supported by the staff of the Virginia Department of Education, to embark on an intensive process to collaboratively reform our funding system.

Together, we need to build a transparent and tailored-to-student-need funding system that allows localities to know their expected funding and effectively plan to meet the needs of all students. We must ensure that we target resources to improve student achievement and provide local school divisions the flexibility to adapt to significant shifts in student population and achievement gaps. If we do not reform how we fund, we risk simply accelerating spending without improving results.

Similarly, with regard to teacher pay, we need a common understanding of where we are now and regional competitive dynamics. As stated before, we have funded 17% increases in teacher compensation in the Commonwealth. Since I became Governor, we have agreed on a total of 12% structural pay increases, and the last budget signed by my predecessor included a 5% pay increase. Based on the reported VDOE survey data, these 17% pay increases will close the gap, with the Commonwealth's average teacher pay outpacing the National Education Association's national average in FY24³. This achievement comes before any of the appropriate and necessary pay increases that I expect we will agree as part of HB 30 and SB 30.

CLOSING THE GAP IN COMPETITIVE TEACHER PAY³

National Average vs. Virginia Average Teacher Pay



These investments are a testament to a fundamental, shared belief – great teachers matter, and they are the most important driver of student success. Of course, salary is just one component of keeping teachers in the classroom. JLARC acknowledges this, citing that career breaks, retirement, high workloads, and ineffective school leadership drive teachers out of classrooms faster than pay.

We have collective work to do to address the one-size-fits-all teacher pay plan that offers no remedy for larger drivers of teacher departures and overlooks the regional variations and challenges faced by educators across Virginia. Educators know that school districts compete for teachers regionally, not nationally. Competitive pay in Fairfax is different from the Eastern Shore, Martinsville, or Bristol. We need a comprehensive, tailored solution to address all meaningful drivers of teacher dissatisfaction, improve student achievement, celebrate great teachers, and incentivize teaching in our hard-to-staff school districts.

Funding for Community Violence Intervention

In the area of public safety, I am proud of our shared accomplishments in establishing and expanding community-focused violence intervention programs, and I encourage you to continue that work. This includes the Operation Ceasefire Grant Fund, which works well with its sister initiatives at the Department of Criminal Justice Services, the Office of Safer Communities, and the Firearm Violence Prevention Grant Fund. I encourage the conferees to come together around expanded and not reduced resources and scope for these programs.

I would also like to request that additional compensation included in the introduced budget for the Department of Corrections and the Virginia State Police be maintained in the conference report.

Critical Infrastructure: Information Technology, Real Estate, & Business-Ready-Sites

We need to modernize our critical IT infrastructure for our security, to serve the people of the Commonwealth better and to save taxpayer money. The introduced versions of HB 30 and SB 30 included \$150 million for essential IT investments. The Commonwealth is plagued with terribly outdated systems and spends more than \$250 million each year patching them for growing security risks. I appreciate the inclusion of \$25 million in HB 30 as amended to support a replacement system for the Department of Taxation and look forward to working together to identify the other two or three high-impact IT modernization needs⁴.

We face similar challenges on our real estate holdings, especially our aging state buildings. Virginia owns 728 square miles of real estate and over 10,000 buildings, holding 30% excess space in the Richmond area. Moreover, CoStar Group reports that as of the end of 2023, Richmond has nearly 6 million square feet of empty office space throughout the region with a vacancy rate of almost 20% in downtown Richmond. We should continue our planned demolition of Monroe, invest in and utilize our unused capacity, and not build a new state office building other than the new Supreme Court of Virginia building.

I urge us to maintain our expanded commitment to business-ready sites. Our competitor states have been consistently investing in their sites for more than a decade. Since 2022, we have provided over \$275 million to build competitive, industrial-ready sites to attract new businesses to Virginia and accelerate job growth. Localities responded to this unprecedented investment with fervent interest, submitting \$800 million in project applications for the last \$125 million grant round in FY24. Localities know that to compete for jobs, they need shovel-ready sites.

A Monumental Opportunity

Lastly, I appreciate the significant work done to consider the monumental opportunity Virginia has to create a unique, first-of-its-kind, public-private partnership to bring two professional sports teams to Virginia.

As you know, my administration has been working closely with the staff of each money committee to provide up-to-date and accurate information on the structure of the Sports and Entertainment Authority that would be created for this project. The financial projections supporting this project are strong, and we have repeatedly confirmed this project will not impact Virginia's sterling AAA credit rating and debt capacity.

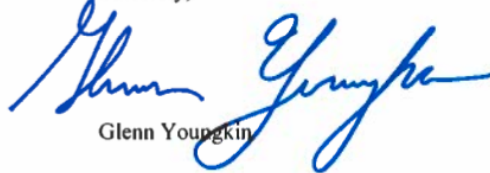
In recent weeks, we have also had productive conversations with legislators on transportation improvements in the region, additional support for the Washington Metropolitan Transit Authority, and the significant increase in affordable and workforce housing this project creates.

This opportunity creates 30,000 jobs and generates over \$12 billion in economic contribution, above all required debt service, including \$7 billion to the state. This revenue can be a dedicated,

long-term funding stream for key shared priorities including toll relief, education funding for disadvantaged rural and urban areas, and funding for Interstate 81 improvements. Eleven percent of the excess revenue created by this project contributes most of the funds needed to provide over \$321 million in toll relief to residents of Norfolk and Portsmouth.

I appreciate the opportunity to discuss the shared opportunities before us as we adopt a final budget for the biennium. I will continue to make the entirety of my Administration available to you and your staff as you work towards a conference report.

Sincerely,



Glenn Youngkin

cc: The Honorable R. Creigh Deeds
The Honorable Mamie E. Locke
The Honorable Ryan T. McDougle
The Honorable Jennifer B. Boysko
The Honorable Todd E. Pillion
The Honorable Mark D. Sickles
The Honorable David L. Bulova
The Honorable Betsy B. Carr
The Honorable Terry L. Austin
The Honorable Robert S. Bloxom, Jr.
Ms. April Kees
Ms. Anne Oman
Mr. Michael Maul

¹ The standard deduction increases and expansion of the EITC increased the progressivity of the Virginia tax code by 45% on the index designed by economist Daniel Suits.

² [JLARC 2023 Report](#) pdf p5. Department of Planning and Budget state K-12 funding history adjusted by the actual and percentage change in the U.S. Average Consumer Price Index for all items, all urban consumers (CPI-U) published by the U.S. Bureau of Labor Statistics.

³ National teacher pay reflects the National Education Association's [Rankings and Estimates Report](#) published FY18A-FY23E figures, inflated to FY24E using inflation rates consisted with those published in [Fiscal Impact Statement for HB187](#). Virginia's teacher pay reflects data collected from the Virginia Department of Education's annual [Teacher Salary Report](#) up until FY23, at which point, FY24E assumes full adoption of the 7% pay increases enacted in the budget. The Department's 2023 Education's annual [Teacher Salary Report](#) projects an estimate for FY24E teacher salary based on the average budgeted salary to be provided as reported by school divisions on the 2022-2023 Annual School Report. This figure reflects a discount to the 7% budgeted increase as not all school divisions adopt the state funded increases which require a local match component.

⁴ The Department of Motor Vehicles needs \$30 million to begin to update its 40-year-old Citizen Services System which stores personally identifiable information for millions of Virginia residents.

The Virginia Employment Commission needs \$8 million to update its 13-year-old system to meet growing demands on the agency.

The Virginia Information Technology Agency needs \$10 million to replace the fragmented identity management functions in roughly 300 citizen serving systems with a single secure system.

The Virginia State Police needs \$72 million to modernize 12 critical applications, including the fingerprinting system, the Virginia Criminal Information System, the Virginia Intelligence Management System, asset management system, Criminal History System, Applicant Tracking System, Expungement System, Mental Health System, Master Name Index, and Rap Back System.

The Virginia Department of Health needs \$25 million to update critical stores of health information like the Virginia Stroke Registry, Environmental Health Database, Virginia Medical Examiners Database, Safe Drinking Water System, Virginia Emergency Management Portal, Patient Care Information System, Virginia Disease Surveillance System, Health Workforce System, Infant Screening and Tracking System, Care Connection for Children, and the Pharmacy Management System.