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Should Cities Pay for Sports Facilities?

"We play the Star-Spangled Banner before every game—you want us to pay taxes, too?"
—Bill Veeck

by Adam M. Zaretsky

Americans love sports. Watching the home team in any of the four major sports—baseball, football, basketball and hockey—march to victory in the World Series, Super Bowl, NBA Finals or Stanley Cup Finals arguably generates more excitement and local pride in a town than any other event. Fans love when the hometown boys win. But even when they don't, fans stick by their teams. By and large, so do the cities these teams play in. In fact, cities with home teams are often willing to go to great lengths to ensure they stay home. And cities without home teams are often willing to dangle many carrots to entice teams to move. In either case, the most visible way cities do this is by building new stadiums and arenas.

Between 1987 and 1999, 55 stadiums and arenas were refurbished or built in the United States at a cost of more than \$8.7 billion.¹ This figure, however, includes only the direct costs involved in the construction or refurbishment of the facilities, not the indirect costs—such as money cities might spend on improving or adding to the infrastructure needed to support the facilities. Of the \$8.7 billion in direct costs, about 57 percent—around \$5 billion—was financed with taxpayer money. Since 1999, other stadiums have been constructed or are in the pipeline (see table on page 8), much of the cost of which will also be supported with tax dollars. Between \$14 billion and \$16 billion is expected to be spent on these post-'99 stadiums and arenas,

N.Y., and began charging admission, making it the first recorded baseball “stadium” in the United States. The facility was quite attractive to the fledgling sport of baseball because it enabled the exclusion of non-paying spectators and impressed the up-and-coming players, for whom teams were beginning to compete. By the time the National Association was formed in 1871, owners of such enclosed ballparks had a distinct advantage in the competition for teams.

In many ways, not much has changed since then. Teams today are still attracted by modern facilities, and cities go out of their way to provide them. In other ways, though, much has changed. Nowadays, facilities are not usually owned privately by individuals, but,

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with somewhere between \$9 billion and \$11 billion of this amount coming from public coffers. The use of public funds to lure or keep teams begs several questions, the foremost of which is, “Are these good investments for cities?”

The short answer to this question is “No.” When studying this issue, almost all economists and development specialists (at least those who work independently and not for a chamber of commerce or similar organization) conclude that the rate of return a city or metropolitan area receives for its investment is generally below that of alternative projects. In addition, evidence suggests that cities and metro areas that have invested heavily in sports stadiums and arenas have, on average, experienced slower income growth than those that have not.

Why, then, would cities engage in such activities? This question is actually harder to answer than the former one because, more often than not, the reasons cited are not quantifiable. In other words, the reasons are not as easily measured as, say, costs, because they include many intangible variables, such as civic pride and political self-interest. Moreover, cities generally justify these decisions—and convince taxpayers of their virtue—with analyses that many economists consider suspect because the studies generally overlook some basic economic realities.

Not Always Built with Tax Dollars...

In 1862, William Cammeyer enclosed the Union Club Grounds in Brooklyn,

rather, publicly by a government agency. And even though public financing of stadiums is a more common practice today, cities did pony up for a few of the older, well-known stadiums in times past.

Some prime examples of government-owned stadiums from yesteryear are the Los Angeles Coliseum and Soldier Field, both of which are still in use today. Other famous venues, such as Fenway Park, Ebbets Field, Wrigley Field, Yankee Stadium and the original Comiskey Park, were all privately financed and owned. In fact, prior to World War II, of the 28 major league sports facilities that were built—for which data are available—only five were paid for in part or whole with taxpayer dollars.² Since World War II, however, of the roughly 140 sports facilities that have been built or refurbished, only 14 did *not* use taxpayer dollars.

...But When They Are, Are They Worth It?

The dollars being invested in sports facilities are quite substantial considering the overall contribution the industry makes to the economy. In testimony before the U.S. Congress, economist Robert Baade said that Chicago’s professional sports industry—which includes five teams—accounted for less than one-tenth of 1 percent of Chicago’s 1995 personal income.³ Baade further commented that even when compared with the revenue of other industries, professional sports teams contribute small amounts to the economy. He

noted, for example, that "the sales revenue of Fruit of the Loom exceed[ed] that for all of Major League Baseball (MLB), while the sales revenue of Sears [was] about thirty times larger than that of all MLB revenues."

Still, cities are driven by the idea that playing host to professional sports teams builds civic pride and increases local tax receipts from the team-related sales and salaries. When it comes to salaries, however, economist Mark Rosentraub noted in a 1997 article that there is no U.S. county where professional sports accounts for more than 1 percent of the county's private-sector payroll.

Although sports facilities certainly generate tax revenues from their sales, the pertinent question is whether these revenues are above and beyond what would have occurred in the region anyway. To address this question, city proposals to use taxpayer money to finance sports facilities are routinely accompanied by "economic impact studies." These studies, which are often commissioned by franchise owners and conducted by an accounting firm or local chamber of commerce, generally use spurious economic techniques to demonstrate the number of new jobs and additional tax revenues that will be generated by the project. The assumptions that are made in these studies—such as how much of the newly generated income will stay in the region and how many "secondary" jobs will be created—often cannot be substantiated by economic theory.

Estimates of income that will be generated and, hence, spent in the region are often overstated. Most of the "big" money in sports goes to the owners and players, who may or may not spend the money in the hometown since many live in other cities. And because athletic careers are usually short-lived, much of the players' income is invested. Moreover, league rules often require ticket revenues be shared with franchise owners in other cities as a way to subsidize teams in smaller markets. In the case of the National Football League, every visiting team leaves town with 34 percent of the gate receipts from each game.

On top of all this, the value of the subsidy a team receives when a city foots the bill for a new stadium or arena often shows up as a higher team resale price, which then ends up in the owner's pocket. For example, Eli Jacobs bought the Baltimore Orioles for \$70 million in 1989, just after the team had convinced the state of Maryland to build it a new \$200 million ballpark from lottery revenues. The enormously popular Oriole Park at Camden Yards opened in 1992. The following year, Jacobs sold the

Orioles for \$173 million. The sale netted Jacobs an almost 150 percent return, with no money out-of-pocket for the new ballpark.⁴

And the Dollars Keep Turning Over

Economic impact studies also tend to focus on the increased tax revenues cities expect to receive in return for their investments. The studies, however, often gloss over, or outright ignore, that these facilities usually do not bring new revenues into a city or metropolitan area. Instead, the revenues raised are usually just substitutes for those that would have been raised by other activities. Any student of economics knows that households have budget constraints that are binding, which means that families have only so much money to spend, particularly on entertainment. If the family chooses to spend the money at the ballpark, for example, then those funds cannot be spent on other activities. Thus, no new revenues are actually being generated.

Public funds used for a stadium or arena can generate new revenues for a city only if one of the following situations occurs: 1) the funds generate new spending by people from outside the area who otherwise would not have come to town; 2) the funds cause area residents to spend money locally that would not have been spent there otherwise; or 3) the funds keep turning over locally, thereby "creating" new spending.

Very little evidence exists to suggest that sporting events are better at attracting tourism dollars to a city than other activities. More often than not, tourists who attend a baseball or hockey game, for example, are in town on business or are visiting family and would have spent the money on another activity if the sports outlet were not available.⁵

Economists Roger Noll and Andrew Zimbalist have examined the issue in depth and argued that, as a general rule, sports facilities attract neither tourists nor new industry. A good example, once again, is Oriole Park at Camden Yards. This ballpark is probably the most successful at attracting outsiders since it is only 40 miles from the nation's capital, where there is no major league baseball team. About a third of the crowd at every game comes from outside the Baltimore area. Noll and Zimbalist point out that, "Even so, the net gain to Baltimore's economy in terms of new jobs and incremental tax revenues is only about \$3 million a year—not much of a return on a \$200 million investment."⁶

The claim that sporting facilities cause



residents to spend more money in town than they would otherwise is harder to substantiate. To prove such a claim, the agency performing the analysis would need for its report both detailed infor-

ing, they spend money in the area (for lunch, parking, etc.), which in turn requires local businesses to hire additional workers to support the increased demand. These extra workers further increase demand for goods and services in the area, requiring more new jobs...and so on. That is, the dollars keep turning over locally. The story is the same for fans spending money at the arena, which provides income for arena workers, who then spend the money, generating incomes for other workers...and so on.

On their faces, these are compelling arguments. Some researchers have even attempted to quantify these effects, developing precise multipliers that tell analysts how much the new spending or job creation should be "multiplied" by to arrive at the "total effect" the spending or job creation will have on the local economy. These multipliers are often specific enough to distinguish between various industries, occupations and locations. Thus, economic development specialists and planners will generally latch onto multipliers and confidently proclaim that the 1,000 new jobs created by this industry will actually create 4,355 new jobs and generate \$5.5 million in new revenue in the community when all is said and done.⁷ Makes for great headlines, but are such outcomes believable?

Probably not. As Mark Twain once said: "It's not what we don't know that hurts. It's what we know that just ain't true." For one thing, these new jobs most likely just lure workers away from other jobs in town and do not actually lead to a net change in jobs in the area. For another, many of the jobs are low-paying, part-time and needed only on game days. Moreover, authors of these economic impact studies often choose multipliers arbitrarily or with clients' wishes in mind to get the desired outcome. As economist William Hunter has pointed out, multiplier analysis can be used to justify any public works project because "even the smallest multiplier will guarantee community income growth in excess of public expenditures."⁸

Even if economic impact studies are taken at face value, however, the cost of creating these jobs is usually out of the ballpark. In Cincinnati, for example, when two new stadiums were proposed to keep the NFL Bengals and the MLB Reds in town, the economic impact study claimed that 7,645 jobs would be created or saved because of the stadium investment. Since the project was estimated at \$520 million, each new or saved job was reported to cost about \$68,000.

IN THE PIPELINE

Plans for new stadiums often count on taxpayers' support.

Estimated Cost and Contribution (millions of dollars)

| Team or City | Total | Public Dollars | Percent Public |
|-----------------------|-------|----------------|----------------|
| Cincinnati Reds | 280 | 280 | 100 |
| Seattle Seahawks | 430 | 300 | 70 |
| St. Louis Cardinals | 370 | 250 | 68 |
| San Diego Padres | 411 | 275 | 67 |
| Chicago Bears | 587 | 387 | 66 |
| Houston (new NFL) | 310 | 195 | 63 |
| Philadelphia Eagles | 395 | 234 | 59 |
| Philadelphia Phillies | 345 | 174 | 50 |
| Boston Red Sox | 550 | 200 | 36 |
| New England Patriots | 325 | 0 | 0 |

SOURCE: Teams and local newspapers

mation about the spending patterns of households *and* the ability to ferret out the information about their spending in other regions, which, at best, is extremely difficult and may even be impossible. Without such information, the report's authors could back into this claim only with some fancy footwork and shaky assertions. That is, they would have to contend that residents are spending more in town because of higher incomes that enable households to devote more of their entertainment budgets toward local sporting events. Then, the authors would have to demonstrate that incomes are up *because* money was spent on the stadium. If they can't, the argument falls apart since the only conclusion is that incomes rose for unrelated reasons; throwing tax dollars at the stadium did not affect households' spending patterns.

Multipliers: A Stadium Promoter's Friend

Of the three circumstances described that purportedly generate new revenues, the third—funds keep turning over locally, thereby "creating" new spending—is probably the most spurious from an economist's viewpoint. Such a claim relies on what are called *multipliers*. Multipliers are factors that are used as a way of predicting the "total" effect the creation of an additional job or the spending of an additional dollar will have on a community's economy. It works something like this: A stadium is built, which creates new jobs in the region. Because more people are work-



When economists John Blair and David Swindell examined the \$68,000 figure a bit closer, though, they discovered it was too low because the study's estimate of 7,645 new or saved jobs was too high. Blair and Swindell then re-evaluated the report, corrected for double-counting and other problems, and concluded that only 3,530 jobs would be created or saved if the stadium proposal passed. Thus, the cost per job was actually going to run more than \$147,000. In contrast, state economic development programs spend about \$6,250 per job to create new jobs.⁹

Those Old Economic Saws

Another glaring omission from these economic impact studies is the value of the next-best investment alternative—what economists call the *opportunity cost*. "There's no such thing as a free lunch" is a favorite economist expression because it sums up exactly what opportunity cost means: When making a choice, something always has to be given up. The value of the "losing" choice must be considered when making the decision *and* when calculating the value, or return, of the "winning" choice. In other words, when a city chooses to use taxpayer dollars to finance a sports stadium, the city's leaders must consider not only what the alternative uses of those funds could be—such as schools, police, roads, etc.—but they must also figure what return the city would receive from these other ventures. Then, the return from the city's next-best alternative (for example, schools) must be subtracted from the total return of the "winning" choice to arrive at the "actual" return of the stadium investment. This adjusted calculation, though, is almost always missing from sports stadium impact studies. Why? Because in just about every case, the adjusted calculation would show that the next-best alternative was actually the better alternative.

Has financing sports stadiums ever been the best alternative? Research shows "No." In their book, Noll and Zimbalist—along with 15 other collaborators—examined the local economic development argument from a wide variety of angles. In every case, the conclusions were the same. "A new sports facility had an extremely small (perhaps even negative) effect on overall economic activity and employment. No recent facility appears to have earned anything approaching a reasonable rate of return on investment. No recent facility has been self-financing in terms of its impact on net tax revenues. Regardless of whether the unit of analysis is a local neighborhood, a city, or an entire met-

ropolitan area, the economic benefits of sports facilities are de minimus."¹⁰

In fact, research has shown that subsidizing sports facilities usually does not affect a city's growth and, in some cases, may even hurt growth since funds are being diverted from alternatives with higher returns. In a 1994 study that examined economic growth over a 30-year period in 48 metropolitan areas, Robert Baade found that of the 32 metro areas that had a change in the number of sports teams, only two showed a significant relationship between the presence of a sports team and real per-capita personal income growth. These cities were Indianapolis, which saw a positive relationship, and Baltimore, which had a negative relationship.

Moreover, Baade found that of the 30 metro areas where the stadium or arena was built or refurbished in the previous 10 years, only three areas showed a significant relationship between the presence of a stadium and real per-capita personal income growth. And in all three cases—St. Louis, San Francisco/Oakland and Washington, D.C.—the relationship was *negative*.

The "Build It and They Will Come" Syndrome

Cities go to great lengths to lure a new team to town or to keep the home team home. They feel compelled to compete with other cities that offer new or updated facilities; otherwise, the home team might make good on its threat to leave. The weight of economic evidence, however, shows that taxpayers spend a lot of money and ultimately don't get much back. And when this paltry return is compared with other potential uses of the funds, the investment, almost always, seems unwise. Still, cities eagerly propose spending the funds, and taxpayers willingly support the proposals. Why? Because home teams strike an emotional chord with the community—that intangible "civic pride" is evidently a powerful force. Thus, attacks on stadium proposals, no matter how persuasive, likely fall on deaf ears. More-convincing arguments would spell out the civic initiatives—education, housing and transportation, for example—that are passed over or forgotten in favor of a new stadium.

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ENDNOTES

- 1 This sum is about \$10.7 billion in 2000 dollars. These data are from Keating (1999).
- 2 See Table 1 in Keating (1999) for a complete list of these facilities.
- 3 See Roberts, et al. (1995).
- 4 See Lane (1994).
- 5 See Noll and Zimbalist (1997a), chapters 2 and 15.
- 6 See Noll and Zimbalist (1997b).
- 7 This example is hypothetical and solely for expository purposes.
- 8 See Hunter (1988).
- 9 See Noll and Zimbalist (1997a), chapter 9 (Blair and Swindell) for details.
- 10 See Noll and Zimbalist (1997b).

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