STOP!

THINK…

RECONSIDER?

> “Few fields of empirical economic research offer virtual unanimity of findings. Yet, independent work on the economic impact of stadiums and arenas has uniformly found that there is no significantly positive correlation between sports facility construction and economic development.” (1)

This is the judgment of professional economists (2) who have conducted repeated studies of the economic impacts upon cities and regions that have built stadiums and arenas in order to lure new professional sports franchises or to retain existing ones.(3) Of course, there is another school of thought on this topic, accompanied by a different body of literature. This is the body of work assembled by the consultants hired by arena supporters and proponents to make the case that a stadium or arena is a wise and beneficial use of public funds. Think Big Sacramento’s “Economic Engine Report” is a prime example of this type of study.

ECONOMISTS VS. CONSULTANTS

Why the chasm between the academic studies and the consultant studies? An array of reasons exists, but two explanations deserve close consideration: bias and method. Consultants are hired by the proponents and promoters of arenas to make the case that spending public funds on such facilities is a wise and beneficial choice. (4) Their work is almost always underwritten by local special interests with a real or imagined stake in the proposed arena (5). It may well be that economists have biases as well, but it is highly unlikely that they would all be biased in the same direction, and their salaries, promotions, tenure, and the like are not dependent upon the largesse of promoters or any other parties of interest. (6).

The second explanation lies in the different methods the two groups employ. Consultant studies are prospective; that is, they predict, project, and estimate the economic impacts of a stadium or arena on a given city, county, and region. Economists, on the other hand, engage in retrospective studies. They examine the measurable economic impacts of stadiums and arenas over time. A seminal study of this type was undertaken by Robert A. Baade of Holy Cross College. The study tracked 48 cities over a period of 30 years (7). The study found no evidence of economic development or growth from stadium construction, and in a few cases, they found negative economic impacts (8).

Think Big Sacramento's "Economic Engine Report" projects enormous economic benefits from the construction of an Entertainment and Sports Complex at the downtown railyards. The report offers five "key findings":

1. The Entertainment and Sports Complex will generate just over $157 million in revenue for the entire region on an annual basis, including $100 million in downtown revenue, $116 million in the City of Sacramento, $131 million in the County of Sacramento and…$157 million in the greater Sacramento region. [Translation: Downtown Sacramento will get $100 million; the rest of the City of Sacramento will reap $16 million in revenue; the County of Sacramento will rake in $15 million, and the rest of the region will get $26 million].

2. Given that the facility’s operating costs will be covered by the direct revenue generated within the arena, over a thirty year period the Sacramento region will receive over $7 billion in economic activity.

3. An Entertainment and Sports Complex will attract 3.1 million new visitors to Downtown Sacramento on an annual basis.

4. Hotels located within walking distance of the facility in Downtown Sacramento will see an increase of over 300,000 guests who choose to spend at least one night in a downtown hotel.

5. Fiscal benefits for government agencies created by 3.1 million new visitors will include approximately $6.7 million annually generated by $5.8 million in sales taxes and over $900,000 in transient occupancy taxes. Additional revenue would be expected to be generated by increases in other sources of government revenue such as property taxes. (9)

An earlier Think Big publication – “The Threshold Report” – projects the creation of 3,700 construction jobs and 375 permanent jobs. (10).

These are precisely the kinds of projections that economists find do not hold up over time, because of serious flaws in the methodology of such studies. In a 2008 report, University of Utah economist Sarah Wilhelm includes a list of such flaws:

- Ignoring the substitution effect. Stadium consultants often predict spending around a new arena without taking into account spending that may be reduced in other areas. The substitution effect is based upon the premise that the entertainment budget of individuals and families is usually fixed (this is especially the case in times of recession). Money spent at a downtown arena is money that will be lost to other venues, including restaurants, movie theaters, museums, etc. In other words, if a Roseville family of four spends a portion of its entertainment budget at a railyards arena, that is money that will not be spent in Roseville, in Sacramento County, or in the City of Sacramento outside the area where an arena will have its presumed greatest impact.

- Ignoring visit motivation. Consultants tend to attribute every dollar spent by out-of-towners to the stadium or arena. They often fail to take into account that on game days, some visitors will stay away and some would have come anyway in order to visit family, attend a convention, a wedding or an art exhibit. If the motive for their trip to Sacramento was not attendance at an arena event, then those dollars should not be included in arena benefits.

- Overstating the Multiplier. Consultants use multipliers as high as 2.5 to estimate benefits such as job creation. In the case of jobs, that means that for every job created directly by an arena, two and one half jobs will be created indirectly. Academic studies contend the multiplier should be 1.25, because a substantial portion of spending is used to purchase goods produced outside the metro area and because the salaries of players and profits for owners tend to get spent elsewhere, particularly during the off-season.

- Overstating the importance of the stadium/arena in the local economy. The actual impacts of an arena are often small relative to the economy of a metro area – or in this case, the economy of the Sacramento region. To put this problem into perspective, one economist has concluded that a sports franchise has about the same scale of economic effect as a large grocery store. (11)

The methodology used in "The Economic Engine Report" contains most of these flaws. The $7 billion in spending predicted over 30 years includes spending that will take place even if an arena is not constructed. The 3.1 million projected new visitors to downtown is typical in consultant literature, but the numbers never seem to pan out in the real world. The multiplier used appears to be in excess of 2%. The projections for benefits in the City at large, Sacramento County, and the Sacramento region tend to ignore a simple reality – the further away from an arena, the fewer the benefits and the greater the losses due to the substitution effect.

THE "DOWNTOWN" MODEL

The consulting firm that produced "The Economic Engine Report" attempts to address these criticisms with the following observation:

> "Many studies have been conducted related to the economic viability of sports facilities to trigger further economic benefits to a region. Some economists argue that such facilities only redirect spending from one

activity to another [i.e., the substitution effect], thereby producing little economic benefit. However, those studies do not address a key purpose for building such facilities. The main rational[e] for developing these facilities is to re-invigorate and revitalize specific neighborhoods, specifically downtowns, as such a facility in conjunction with other venues acts as a catalyst for redevelopment of a city's downtown core." (12)

There are a number of problems with this statement. First, it is not "some" economists who find little to no economic benefit to stadiums and arenas, but the vast majority of economists. Second, acknowledging the substitution effect and then ignoring it in the report's projections hardly removes that flaw from the study. Finally, the revitalization of downtowns is a relatively new rationale for constructing stadiums and arenas with public funds. Moreover, it is a rationale advanced not by economists but by urban planners (13). Economists take a different view. Zimbalist, for example, concedes only that sports facilities "may" spur redevelopment in central business districts that need redevelopment. (14) Others, including Dennis Coates, are far more critical,

"[Urban planners]…suggest that the real question should be: Does a stadium help the redevelopment of an area that actually needs redevelopment? To them, a downtown area is deserving of help even if that help comes at the expense of the rest of the area. From this perspective, the studies that find little economic growth flowing from stadiums and sports franchises are not relevant. Instead, the mere *possibility* that a new stadium will aid urban redevelopment in a central city or downtown areas is a sufficient rationale for the subsidies." (15) [emphasis in original].

Sacramento and other cities contemplating the construction of new stadiums and arenas are being asked to wager a great deal on this "possibility." What does the recent history of downtown stadiums and arenas show?

SUCCESSES AND FAILURES

The stadium most often cited for its extraordinary impact on redevelopment in the urban core is Orioles Stadium at Camden Yards in Baltimore.

> "The accepted wisdom is that municipal professional sports stadiums are a bad economic deal for cities, except for Oriole Park at Camden Yards…There is also a widely held perception that the Baltimore experience breaks the mold, and that holds out the possibility that if only other cities can replicate Camden Yards magic, they too can get rich from professional sports." (16)

But the evidence at Camden Yards is mixed at best. The stadium greatly increased attendance at baseball games, primarily because of access (the previous stadium had no expressway access at all). However, most of the money derived from that increased attendance went to team owners and players. The redevelopment impact of Camden Yards has in all likelihood been overstated, since Camden Yards and a football stadium constructed a little later are located in a part of the urban core where redevelopment was already well underway. In addition, the City of Baltimore pays $2 million per year toward the cost of the baseball stadium alone, and earns only $3 million a year net, in new jobs and extra tax revenues, from its $200 million Camden Yards baseball stadium.

Finally, the Baltimore experience demonstrates rather conclusively that redevelopment spurred by publicly financed stadiums is a very, very expensive way to create jobs. The jobs created by the Camden Yards baseball stadium cost about $125,000 apiece, while non-stadium related jobs resulting from redevelopment were created at a cost of about $6,000. Compare that to what's being proposed in Sacramento. The Entertainment and Sports Complex will create about 4,000 jobs at a cost of $406 million – over $100,000 per job. (Moreover, the 375 permanent jobs that will be created in downtown Sacramento, if they are anything like the jobs created by other arenas, will be seasonal, part time, low wage jobs, probably without benefits). (17) The problem with the stadium as a catalyst for redevelopment of central business districts is this: the preponderance of the evidence strongly suggests that stadiums and arenas don't cause economic development; they follow it. (18)

Closer at hand, there is the notion that AT&T Park in San Francisco has been a boon to redevelopment in that City's urban core. As in so many cases, San Francisco is probably the exception that proves the rule. The City of San Francisco is a very small place; it covers fewer than 50 square miles. Land is at a premium, and any new land opened for development by public expenditures on infrastructure (which is all the City contributed to this ballpark), will quickly be built upon, whether there is a stadium in the mix or not.

It is also important to remember the disastrous experiences of some cities who sought economic development through public subsidization of sports – something that is simply never mentioned in the consultant literature. Consider, for example, Houston and Harris County, Texas. More than a decade after its professional sports teams moved out, the Astrodome (once touted as the "Eighth Wonder of the World') still carries $32 million in debt. That's nearly as much as the original cost of construction. Harris County, which owns the stadium, estimates it will take another 22 years (roughly, a generation) to complete the $48 million in debt and interest payments to get this "asset" off the books. Three Rivers Stadium in Pittsburgh was still carrying $45 million in debt at the time of its demolition in 2001. Seattle's Kingdome was razed in 2000, and King County won't have the remaining debt paid off for several more years. (19) All of these facilities were built on promises of an economic windfall that never materialized. Then, of course, there is Stockton, whose leaders bet on the redevelopment prospects of a baseball stadium and a hockey arena. Redevelopment never happened, and for this and other reasons, Stockton is facing bankruptcy. Where is the evidence that Sacramento will end up a winner in the stadium game, especially since tax increment funding has vanished along with Redevelopment agencies?

QUALITY OF LIFE BENEFITS

Revitalizing the downtown core is not the only new rationale for stadium construction that seeks to marginalize the daunting conclusions of the economic studies. Stadium proponents today rely heavily upon what are called "Quality of Life Benefits." From the perspective of stadium promoters, these benefits ward off hard economic evidence, primarily because they are so difficult to measure and quantify. Typical quality of life benefits include such things as

1. Consumer Surplus. This is a fairly complicated concept that rests primarily upon the difference between what a consumer is willing to pay for an item and the actual price of an item. To use an example from Wilhelm, suppose a fan is willing to pay $800 to attend a playoff game, but the actual price of the ticket is $50. That fan is said to have a consumer surplus of $750. Unfortunately, measuring the surplus is

very, very difficult, although some economists have attempted to do so through mathematically sophisticated regression analyses.

2. Fan Happiness. Having a professional sports team can create benefits not just for those who attend games, but those who watch the games on television, follow the team's progress in the newspapers, and converse with family, friends, and co-workers about the team's fortunes. Again, this is a benefit that is very difficult to measure in standard economic terms.

3. Civic Pride. A professional sports franchise creates civic pride by conferring upon a city or region "major league," "big league," or "world class" status. Losing a franchise, on the other hand, can result in the loss of such status. (20)

Because these benefits are intangible and difficult to measure, it is also difficult to answer the basic question that preoccupies economists: are these benefits equal to or greater than the cost of the government subsidy necessary to construct a stadium or arena? For some, the answer is a resounding YES! An extreme example of such sentiment is recounted in an early work on sports economics, which cites a Sacramento civic leader who, upon learning that an NFL team might relocate to Sacramento exclaimed, "The Raiders coming to Sacramento would be an event the magnitude of the Gold Rush." (21) (In the six years following the discovery of gold at Sutter's Mill, 300,000 people moved to northern California. The Raiders would have played eight home games here.) These sentiments are alive and well in the discussion about the proposed Entertainment and Sports Complex. It is heard loud and clear from those who truly seem to believe that, if we lose the Kings, Sacramento will be nothing.

These are difficult waters for public officials to navigate, particularly in a city in dire fiscal straits. The advice of economists is pretty clear,

> "Improving citizens' quality of life is clearly an important goal for pubic policy makers, and there is evidence that sports are a valued amenity for local communities. Evidence of significant direct economic benefits from sporting events, franchises, and stadiums is lacking, however. While public-private partnerships can be justified on quality of life grounds, voters and public officials should not be deluded by over-optimistic predictions of a financial windfall. Sports may make a city happy, but they are unlikely to make a city rich." (22)

LOST OPPORTUNITIES?

In fact, sports may actually make a city or region poorer. In part, this is because of what economists call "opportunity costs." Simply put, dollars expended on an arena or stadium are dollars that are unavailable for other uses. For example, while the proposed lease of the City's parking resources to the private sector would generate dollars not available for other uses, the same is not true with regard to the sale of City-owned land. Proceeds from land sales could easily be used to cover at least some of the costs associated with updating of Sacramento's water and sewer infrastructure, which, in turn could help mitigate the huge increases in utility rates that are now being contemplated.

Professional sports leagues operate as cartels. They control the number of teams in order to keep demand high. (23) The teams in turn demand new stadiums and arenas to come to a city and new stadiums and arenas to stay where they are. They need the new arenas, with their luxury boxes, advertising opportunities, and concessions to make up for money they have lost through player free agency and the various forms of revenue sharing that the leagues have imposed. Teams are businesses, and their only serious concern is profit. They demand a form of what can only be described as corporate welfare, and they get it, because public officials are more afraid of losing a sports team than of putting municipal services at risk. (24) As Sacramento's policy makers consider subsidizing an Entertainment and Sports Complex, they need to keep themselves fully aware not only of the benefits that might result, but also of the very real pitfalls that could just as easily lie ahead.

NOTES

1. Siegfried, J. and A. Zimbalist, "The Economics of Sports Facilities and Their Communities," *Journal of Economic Perspectives*: Vo. 14, No.3 (Summer 2000) p.102. A more recent study reached a similar conclusion, "There now exists almost twenty years of research on the economic impact of professional sports franchises and facilities on the local economy. The results in this literature are strikingly consistent. No matter what cities or geographical areas are examined, no matter what estimators are used, no matter what model specifications are used, and no matter what variables are used, articles published in peer reviewed economics journals contain almost no evidence that professional sports franchises and facilities have a measurable impact on the economy." Coates, D. and B. Humphreys, "Do Economists Reach a Conclusion on Subsidies for Sports Franchises, Stadiums, and Mega-Events?" Working Paper Series: Paper No. 08-18 (2008). International Association of Sports Economists.

2. An economist within the context of these studies is someone who holds a Ph.D. in economics, works or has worked in college and/or university economics departments, or publishes predominantly in economics journals. See Coates, D. and B. Humphreys, "Do Economist Reach a Conclusion on Subsidies for Sports Franchises, Stadiums, and Mega-Events," p. 11-12.

3. A landmark early work in this field is *Sports, Jobs, and Taxes: The Economic Impact of Sports Teams and Stadiums.* R. Noll and A Zimbalist, Eds. (1997) Brookings Institution Press: Washington, D.C. For more current studies, see the Reference List that follows these notes.

4. Crompton, J.L., "Economic Impact Analysis of Sports Facilities and Events: Eleven Sources of Misapplication." *Journal of Sports Management,* Vol. 9, No. 1 (1995), p. 14-35; Wilhelm, S. "Public Funding of Sports Stadiums." Policy Brief, Center for Public Policy and Administration (2008) University of Utah, Salt Lake City. p.6; and Baade, R. and V. Matheson, "Financing Professional Sports Facilities." Paper No. 11-02 (2011) Department of Economics Faculty Research Series, College of the Holy Cross.

5. The nature of these interests is catalogued throughout the academic literature and includes chambers of commerce, other business organizations or entities, individual businesses that see the possibility of increased profits, and local media outlets that covet the advertising revenue sports franchises bring.

6. Wilhelm, S., p.8.

7. Baade, R. “Stadiums, Professional Sports, and Economic Development: Assessing the Reality.” Heartland Policy Study, No. 62. (1994). The Heartland Institute.

8. *ibid,* p.20. These negative impacts are further explored in Coates, D and B. Humphreys, “Professional Sports Facilities, Franchises and Urban Economic Development,” Economics Department Working Paper, 03-103 (2003). University of Maryland, Baltimore County.

9. “The Economic Engine Report: An Economic Analysis on the Regional Impact of an Entertainment and Sports Complex.” prepared for Think Big Sacramento by Capital Public Finance Group, LLC (2011) Sacramento, p.3

10. “The Threshold Report: An Initial Economic Analysis of a New Entertainment and Sports Complex.” prepared for Think Big Sacramento by Capital Public Finance Group, LLC (2010) Sacramento, p.2

11. Wilhelm, S. p.8-9. As more than one study has pointed out, professional sports teams are small businesses. They employ few people, and most of the money they take in goes to owner profits and player salaries. The lion’s share of that money does not stay in the local area, particularly during the off-season. See Siegfried and Zimbalist, p.109 and Euchner, C., *Playing the Field: Why Sports Teams Move and Cities Fight to Keep Them.* (1993). Johns Hopkins University Press, Baltimore.

12. “The Economic Engine Report,” p.21

13. See, for example, C. Santo, “The Economic Impact of Sports Stadiums: Recasting the Analysis in Context.” *Journal of Urban Affairs,* Vol.27, No.2, (2005), pages 177-191

14. Siegfried and Zimbalist, p. 109.

15. Coates, D., “A Closer Look at Stadium Subsidies,” *The American: The Journal of the American Enterprise Institute.* April 29, 2008.

16. Hamilton, B. and P. Kahn, “Baltimore’s Camden Yard Ballparks,: in *Sports, Jobs, and Taxes,* p. 245-281; Coates, D. and B. Humphreys, “Professional Sports Facilities, Franchises and Urban Economic Development,” and “Are Stadiums Good for You?” *The Economist*. March 11, 1999.

17. City staff has recalculated the jobs that the Entertainment and Sports Complex will produce and raised the total number to 5,000. The cost per job created given this new number will be slightly over $78,000. There has been no explanation given as to why, using the same IMPLAN [Impact Analysis for PLANing] model as the authors of “The Economic Engine

Report" (see page 24), the number of jobs has risen. It may be because the multiplier is larger or because of the shortcomings of IMPLAN, which is the kind of input-output model that economists frequently fault for the overly optimist job creation numbers in consultant studies. See, for example, Coates, D. and B. Humphreys, "The Stadium Gambit and Local Economic Development," *Regulation Magazine*, Vol. 23, no.2 (2000) p.15-20. See also Rappaport, J. and C. Wilkerson, "What are the Benefits of Hosting a Major League Sports Franchise?" *Economic Review.* 2001, Federal Reserve Bank of Kansas City.

18. Baade, R. and V. Matheson, "Financing Professional Sports Facilities."

19. Moran, C. "A Costly Wonder: Astrodome Debt Likely to Haunt Harris County," *Houston Chronicle*, April, 2010. See also "Stadium Debt," *The Sports Economist*, April 13, 2010.

20. Wilhelm, S., p.5. See also Rappaport, J. and C. Wilkerson, p. 70-77.

21. Wilhelm, S. p.9 and Euchner, C, *Playing the Field.*

22. Baade, R. and V. Matheson, "Financing Professional Sports Facilities," p. 18.

23. For a discussion of how sports cartels work, see Bernstein, M. "Sports Stadium Boondoggle," *The Public Interest*, Summer 1998.

24. *ibid.* Neil DeMause offers another interesting fact: "It's also worth noting tht even in those few cities where teams have moved, no local official has yet been voted out of office as a result. A Wisconsin state senator who cast the deciding vote for a new Brewers stadium in 1995 did, however, become his state's first legislator to be recalled by voters." DeMause, N., "Why Do Mayors Love Sports Stadiums?" *The Nation*, July 27, 2011.

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