

## **BASEBALL AND THE AMERICAN CITY:**

An examination of public financing and stadium  
construction in American professional sports.

By

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<http://www.stadiummouse.com/>

**ECONOMIC**

*People have a limited amount of discretionary income. They may use it on attendance at professional sporting events. In the absence of pro sports, they will spend the money elsewhere – lower-level sporting events, the movies, etc. The same is true for large corporations. If they don't buy sky boxes, they will entertain their clients elsewhere (i.e. restaurants). Sports facilities generate very few jobs. For a local economy, player management (and that may come from outside) and low-level game day employment (vendors, etc...). A modest factory, or a small research facility has far more impact.*

*- Robert K. Whelan (Questionnaire Response)*

The local economic benefits from a major professional sports team derive from four sources: (1) spending for attendance (tickets and parking) at the games, (2) spending for concession items sold at the games such as hot dogs and baseball caps, (3) spending before and after the events for other consumption items such as meals, and (4) taxes paid to local government on spending for the previous three categories. Other potential economic benefits that result from the construction of a new stadium or arena include job creation (in and around the affected neighborhood) and the money earned by the team and its players.

In estimating these benefits, two important qualifications must be considered. First, only that portion of the spending which stays in the local economy can be counted as providing a local benefit. Second, spending generated by the construction of a new stadium or arena can only be considered a local benefit to the local economy if the spending would not have taken place in the absence of the team or new facility.

All of this, of course, must be weighed against the direct and indirect cost (including opportunity cost) of sports construction.

## **Cost of Sports Construction**

The cost of stadiums construction, even discounted for inflation, has grown significantly over the past century to the point where many cities can no longer reasonably afford to devote the necessary public funds to satisfy the appetite for sports infrastructure needs. Construction spending for professional sports stadiums and arenas in the United States totaled over \$6 billion in the 1990s, up from \$500 million in the 1960s, \$1.5 billion in the '70s and another \$1.5 billion in the '80s.<sup>1</sup> That means the total construction costs of stadiums opening in the 1990's reached \$2.77 billion, while arena construction costs are estimated at an even more staggering \$3.36 billion. That's an average stadium cost \$198 million and an average arena cost \$153 million.<sup>2</sup>

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<sup>1</sup>Quirk, James and Rodney D. Fort. 1992. Pay Dirt: The Business of Professional Team Sports. Princeton, N.J.: Princeton University Press.

<sup>2</sup> Anderson, Paul M. Ed. "The Sports Facilities Boom" in *Sports Facility Update* (Vol. 1, Number 1, Spring 2000). Available online at <http://www.marquette.edu/law/sports/sfr/sfr11.html#sports>

*History.* The most detailed records concerning stadium construction costs are related to baseball and multi-use facilities. Back in 1833, the Brooklyn Trolley Dodgers built Washington Park for \$30,000. The facility was built entirely out of wood and seated approximately 2,500 fans. Between 1909 and 1915, ten new baseball stadiums were constructed from brick, steel and reinforced concrete, jumping the costs to between \$250,000 and \$750,000 each. Only one stadium was built during the Depression, and none were built during WWII. Following WWII, however, cities began to grow and stadium construction boomed to keep up with the growing interest in professional sports.

Construction costs for baseball and multi-use stadiums grew significantly in the decades following WWII (see Appendix 1A). While far less information concerning the construction costs of arenas is available, the trend remains basically the same (see Appendix 2A). The original generation of arenas, built for hockey and other related entertainment, began with the construction of the original Madison Square Garden in 1925, Boston Garden in 1928, and Chicago Stadium in 1929. The average cost of construction at that time ranged from \$2.5 million to \$7 million each. In the decades that followed WWII, construction costs skyrocketed.

*Cost Overruns:* Cost overruns are extremely likely in stadium projects. Overruns often run to 40% and can run as high as 500% -- a recent study cited by New York magazine of fourteen stadium projects revealed an average construction cost overrun of 73%.<sup>3</sup> Of the four cities that have most recently construction major sports facilities – Seattle, Denver, Houston and Pittsburgh – the costs have exceeded even what independent analysts predicted. The potential danger to local taxpayers, however, only exists only when the public sector participants are expected to pay. Safeco Field in Seattle, the first baseball stadium with full retractable roof, was built at a cost of \$517 million, and was more than \$100 million over projections. At the same time, the Seattle Mariners were responsible for cost overruns, so the public was protected.

## **Economic Benefits of Sports Construction: Teams/Franchises**

Teams are valued by their ability to generate net revenues. Major professional sports teams benefit from ticket receipts, concessions, and on the sale of broadcasting rights (television, radio and Internet) for their financial support. Team values also reflects the income-generating capacity of the facility in which they play.

According to a 1996 survey by Financial World magazine, basketball teams are valued the highest. Although football generates the most in total revenues, basketball teams are considered a better value. The typical NBA team is valued at 2.8 times its average revenues for the past three seasons. At the low end is baseball, where most teams are worth only a multiple of 2.2. Comparable figures for football and hockey franchises are 2.7 and

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<sup>3</sup> Philip Bess. "Coors Field and the State of the Art" *Denver Post*, April 2, 1995.

2.5 respectively.<sup>4</sup> All professional sports franchises look at new stadiums to increase their cash flow and thus their market (or resale) value.

Each individual league has a different arrangement for revenue sharing. The National Football League (NFL) has the highest degree of revenue sharing with over 80 percent of league revenues shared. On the other end of the scale, only 5.4 percent of league revenue is shared in the National Hockey League (NHL). The NHL derives only a small portion of total revenue from its national media contracts, with the majority of its revenues obtained from gate receipts. Major League Baseball (MLB) and the National Basketball Association (NBA) fall between these two extremes.<sup>5</sup> Specifically, league revenue distribution is as follows:

- As mentioned above, the NFL generates more in revenues than any other sport. NFL teams also share more of their revenues than any other league. Nearly all of the total league revenue from merchandising and broadcasting is shared equally among team owners. Game day revenue from ticket sales are shared by the teams, with the home team receiving 60 percent and the visiting team 40 percent.
- Major League Baseball splits its revenues separately by league: the American league is 80-20 in favor of the home team, while the National League offers the visiting squad 42 cents per admission. Major League Baseball collects the income from national television broadcasts and distributes revenues to all teams. However, individual teams are permitted to sign local broadcast contracts and retain the cable and local broadcasting revenue. The result is a wide disparity between the revenue of large media-market and small media-market teams.
- The NBA and NHL allow teams to share revenue. In the NHL, the home team retains the entire gate. In the NBA, the home team retains 94 percent of the gate with the league receiving the other 6 percent. In both, players receive a portion of the gross revenues from game day and share in all sources of revenue including luxury suites, sponsorships, parking and concessions. Each team may sell the rights to broadcast games on local television. In this way, the players and team owners are both vested in the financial success of the franchise.

Meanwhile, owners from all four major sports also collect income generated from sports facilities, which includes revenues from parking, food and beverage concessions, team paraphernalia and merchandise, naming rights, stadium advertising, luxury seating and personal seat licenses. Because owners do not share stadium revenue, franchises with facilities that generate high stadium revenues tend to be valued higher than other teams.<sup>6</sup>

*Finance World* magazine noted in 1997 that the average valuation for baseball teams with new parks rose by 79 percent, compared with a league average of just 11 percent. Teams claiming a new football stadium rose 156 percent in value, compared with the NFL average of 111 percent. In the NBA, teams with new courts jumped

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<sup>4</sup> Tushar Atre, Kristine Auns, Kurt Badenhausen, Kevin McAuliffe, Christopher Niklov and Michael K. Ozanian, "Sports: The High Stakes Game of Team Ownership," *Financial World*, May 20, 1996, 55.

<sup>5</sup> The Digital Daily (a publication of the IRS) -- available online at [http://www.irs.ustreas.gov/prod/bus\\_info/mssp/sport-7.html#Chap8](http://www.irs.ustreas.gov/prod/bus_info/mssp/sport-7.html#Chap8)

<sup>6</sup> Jim Gallagher, "Without New Stadium, Lamping Fears Team will Slump, Lose Fans," *St. Louis Post-Dispatch*, May 28, 2000.

70 percent in value, compared with 55 percent for league teams overall. NHL clubs skating in new rinks increased in value 133 percent, compared with a league average of 105 percent.<sup>7</sup> For all the major sports, new stadiums and arenas routinely boost a team's revenue by \$25 million to \$40 million per year.

## **Economic Benefits of Sports Construction: Local Communities**

Independent analyses of the economic and employment impacts of sports stadiums have consistently found that there is no statistically significant economic benefit to building a stadium. An analysis by Robert Baade of Lake Forest College studied thirty cities over thirty years and found that twenty-seven experienced no significant impact from new stadiums, while only three cities experienced a negative economic impact.<sup>8</sup> Baade concludes that three factors determine the economic viability of a stadium plan. Those factors include:

- **Opportunity Cost:** This fundamental economic theory explains that the true cost of using a resource is the value of the next-highest valued alternative use of that resource. The alternatives to investing in a stadium or sports franchise include new parks, an industrial facility or schools. It may also include money to hire more police, firefighters, or teachers. According to Baade, those alternative uses produce more value than a new stadium. It is not clear, however, that public money raised for stadium construction would be available for other uses. In most cases, public funds for stadium and arena construction are the result of special taxes (hotel and/or rental car taxes for example) that only go toward stadium construction. These taxes are designed to minimize the impact on local taxpayers, and instead focus the cost of stadium and arena construction on visitors/tourists to a region.
- **Shifting current spending:** According to William Kern, an Associate Professor of Economics from Western Michigan University, "[stadium construction] generates a shift in discretionary entertainment spending from one form to another."<sup>9</sup> In other words, individuals have a certain budget they will devote to their entertainment. The construction of a new sports facility does not expand that budget. Rather, it forces individuals to choose where and when they want to spend – economists call this the "substitution effect."<sup>10</sup> While some of this money will be spent at the sports facility, most would have been spent anyway at some other entertainment venue, such as a local theater, bowling alley, or bar/restaurant. Money spent on sports will not be spent on movies or related activities. So, while some revenues go up, others go down – the net does not change.
- **Outside Expenditures:** A stadium could generate "new money" for a metropolitan area if it attracted a significant percent of its fans from outside the immediate area around the stadium or arena. As Roger Noll and Andrew Zimbalist explain it, "a stadium can spur economic growth if sports is a significant export industry." They argue, "the most successful export facility is Oriole Park, where about a third of the crowd at every game comes from outside the Baltimore area. (Baltimore's baseball exports are enhanced because it is 40 miles from the nation's capital, which has no major

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<sup>7</sup> Keating, Raymond J. "We wuz robbed!: The subsidized stadium scam." Policy Review, No. 82, pp. 54-57 (March/April, 1997).

<sup>8</sup> Baade, Robert A. "Stadiums, Professional Sports, and Economic Development: Assessing the Reality," Heartland Policy Study No. 62, March 1994.

<sup>9</sup> Questionnaire Response – William Kern

<sup>10</sup> The consumer always favors lower priced goods. If the price of Good X rises, the consumer will buy less of Good X and more of a substitute good such as Good Y. Conversely, if the price of Good X falls, the substitution effect leads the consumer to buy more of X which is now less expensive compared to Good Y which has a constant price. (Stockman, Alan. "Introduction to Economics 2e" – available online at <http://www.dryden.com/econ/stockman/>)

league baseball team.) 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."<sup>11</sup> At the same time, Glen Lee, a member of the Economics Team for the Seattle City Budget Office explains, "the new money impact is significantly smaller than the total impact," but still acknowledges "it is the appropriate way of measuring the economic impact."

*Job creation.* A common argument heard from stadium proponents is that the construction of a new sports stadium or arena will generate thousands of new jobs for the local community. Robert Baade found that "sports tend to produce low-skilled, low-paid employment such as: food and souvenir vendors, security personnel, hotel and restaurant employees."<sup>12</sup> If a city encourages a movement toward this kind of employment by subsidizing sports, the city will find its economic development lagging behind development in the rest of the region. In other words, jobs created by stadium and arena construction and/or operation do not, on their own, generate significant tax revenues for a city. Taxes generated by the operation of a factory or similar industry would likely be greater than that of a stadium or arena, and therefore are more valuable to a city from a revenue standpoint.

*The Multiplier Effect.* Basic economic theory holds that economic growth occurs when a community's resources become more productive. In other words, the people, capital investments, and natural resources in a city must increase their value at a greater rate than the general value of the rest of the assets in a community grow. Stadium construction proponents argue when money is spent and then re-spent in the community, that all new spending related to stadium construction has the same effect – a so-called "multiplier effect." The economic effects tourism can have on a community can also be explained through the multiplier effect. Tourists will spend money during their visits on such things as gas, food, lodging, purchases, and recreation. The community pulls in these added dollars in the form of wages, salaries, profits, and taxes. In turn, employees and workers use these wages and profits to purchase similar goods and services within the community. Thus, the tourist dollar gets reused over and over again, the multiplier effect, and allows for high economic stimulation. Still, "building a stadium is good for the local economy," Zimbalist and Noll argue, "only if a stadium is the most productive way to make capital investments and use its workers."<sup>13</sup> "A modest factory, or a small research facility has far more impact."<sup>14</sup> This assumes that the capital would, or could, be kept in the community used for a better purpose.

## **Public Subsidies and Sports Construction**

As sports construction costs rose throughout the 20<sup>th</sup> century, a similar trend could be found in increased public subsidies for sports construction. In the 20<sup>th</sup> century, more than \$20 billion has been spent on major

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<sup>11</sup> Noll, Roger and Zimbalist, Andrew. "Are New Stadiums Worth the Cost?" Brookings Institute.

<sup>12</sup> Baade, Robert. "Is There an Economic Rationale for Subsidizing Sports Stadiums?" Heartland Institute.

<sup>13</sup> *ibid.*

<sup>14</sup> Questionnaire Response – Robert K. Whelan.

league ballparks, stadiums, and arenas. This includes a minimum of \$14.7 billion in government subsidies to the four major professional leagues -- Major League Baseball, the National Football League, the National Basketball Association, and the National Hockey League -- including more than \$5.2 billion just since 1989.<sup>15</sup>

In total, of the \$6.13 billion total estimated construction costs, \$3.26 billion (53%), were paid for or backed by public sources. The amount of public subsidy differs significantly between sports, and therefore, between stadiums (baseball and football) and arenas (basketball and hockey). Of the \$3.36 billion spent on arenas, \$1.32 billion, or only 39%, came from public sources. In a stark contrast, of the \$2.77 billion spent on stadiums, \$1.95 billion, or 70%, came from public sources.<sup>16</sup> Clearly, the private sectors has invested more heavily in arena development than in stadium projects.

Extensive subsidization of sports by government has been a fairly recent development in U.S. history according to Princeton University political scientist Michael Danielson. Previously, "big league playing facilities were private enterprises. Entrepreneurs acquired land, built ballparks and arenas, and operated them."<sup>17</sup> Baseball teams in particular "shifted from grounds rented from other private parties to building their own fields, with all clubs playing in team-owned parks by World War I."<sup>18</sup>

In their 1992 book, Pay Dirt: The Business of Professional Sports Teams, James Quirk and Rodney Fort explain that local governments began to invest heavily in stadiums in the early 1960's. By 1989, annual subsidies were present in 25 percent of professional sports stadiums in the nation. The level of subsidy ranged widely, from an annual subsidy of \$189,000 for Lambeau Field in Green Bay to \$20.1 million for Houston's Astrodome, and \$42.2 million for the Superdome in New Orleans. That number has continued to grow over the past decade; the National Taxpayers Union now estimates that "a \$225 million stadium typically enjoys a \$75 million tax subsidy over a pure private-sector project costing the same amount."<sup>19</sup>

In the 1990's, public subsidies for sports construction continued to increase. Of the fourteen new baseball stadiums built since 1990, eight required at least 80% public financing and only three were fully privately financed (with substantial indirect public investments such as roads and related infrastructure improvements). In contrast, of the twenty-two new arenas, only nine required 80% or greater public participation while eight were fully privately funded and another two needed 15% or less public funding. By 1991, 79 out of 102 professional sports teams in the U.S. played in a publicly owned facility.

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<sup>15</sup> Keating, Raymond J. "Sports Pork: The Costly Relationship between Major League Sports and Government" Available online at <http://www.cato.org/pubs/pas/pa-339es.html>

<sup>16</sup> The Sports Facilities Boom.

<sup>17</sup> Michael Danielson. Home Team: Professional Sports and the American Metropolis. (Princeton, N.J.: Princeton University Press, 1997, p. 223.

<sup>18</sup> Ibid.

<sup>19</sup> Gessing, Paul J. "Public Funding of Sports Stadiums: Ballpark Boondoggle." (National Taxpayers Union Foundation, Policy Paper No. 133, February 28, 2001)

Local officials approve subsidies for stadium construction out of fear of missing out on the opportunity to have a major sports franchise in their city, or worse, losing their team. All four professional sports leagues keep the supply of teams below the effective demand. This excess demand to host a professional sports team leads U.S. cities to compete against each other. “Unlike an automobile plant or airline maintenance facility,” Mark Rosentraub explains, “if a community loses in the subsidy race to get a NFL or MLB team, there are no other suppliers of these goods and services with whom the community can negotiate.”<sup>20</sup> Richard Conlin, a member of the Seattle City Council argues “[that pressure] definitely makes a difference, and there are likely to be consequences for an elected who is tagged with having lost a community team.

Community leaders, faced with the loss of the franchises and their alleged economic benefits if the team moves, (as has often been explicitly threatened), feel compelled to pay what is demanded by the team owners. To satisfy the requests by sports team owners for new facilities, local officials offer subsidies. Two popular examples, include:

**Subsidized Stadiums:** When cities choose to build stadiums and/or arenas, they do so with multiple public tourist and user-oriented revenue streams. These sources – including hotel/motel car taxes, business taxes, and special lotteries, are directly and indirectly linked to economic development, job creation, and long term community growth.

Studies have shown that stadium subsidies, in addition to defraying the owners’ construction or renovation costs, also increases the value of a team, so that when it is sold the owner reaps higher capital gains. Taxpayers in Denver picked up \$200 million of the \$215 million total cost for Coors Field.<sup>21</sup> More notably, Seattle Seahawks owner Paul Allen, the co-founder of Microsoft with Bill Gates and currently the third richest person in the United States (worth an estimated \$40 billion) demanded that the state of Washington finance 75% of the cost of a new \$425 million stadium for his team.

**Sweetheart Deals:** Some owners have financed stadiums and arenas from their personal fortunes and then received less visible forms of public subsidies. These types of agreements are often referred to as “sweetheart deals.” Contributions from the federal government sometimes include new roads, overpasses, highway access, and similar infrastructure improvements. Cities sometimes provide owners with moving expenses, practice facilities, office space, land, and special investment opportunities.

Like public subsidies for stadium construction, “sweetheart deals” lead to financial gain for the teams and owners. Art Modell, the owner of the Baltimore Ravens, in addition to income from ticket and merchandise sales, gets all parking and other stadium-associated revenues. A Forbes study estimated Modell’s gain at nearly \$120 million. (CITE)

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<sup>20</sup> Rosentraub, Mark. Testimony to the Senate Judiciary Committee Stadium Financing and Franchise Relocation Act of 1999 (S. 952), June 15, 1999.

<sup>21</sup> Laing, Jonathan “Foul Play?” *Barron’s*, August 19, 1996.



*Opposition to public subsidies.* A considerable public outcry has arisen from taxpayers concerning the appropriateness of the commitment of public money for stadium construction. Opponents of government subsidies of sports construction argue that the financing tools used by state and local governments to support these investments lead to increased taxes, but that taxpayers never see the economic returns. They argue that most of the public subsidy money ultimately goes into the pockets of team owners, not back into the community, crediting the rising the resale value of the franchises after they occupy new facilities.

Opponents also argue that providing public funding for stadium and arena construction takes vital funding away from other local priorities. Local politicians feel obvious pressure from the need to strike a balance between the amount of support given to sports (and stadium construction in particular) and what is spent on other local interests. Larry Gossett, a member of the Metropolitan King County Council, voted against funding for Safeco Field because “there are other significant challenges and needs for [the county’s] public funds”<sup>22</sup> He argued, “if we feel comfortable as public officials that we can ask local taxpayers for additional money, than we need to make sure we have provided the necessary support to our other priorities first.”<sup>23</sup> Gossett sought support for what he described as a “new paradigm” saying local officials should “tax people for housing, and development for the indigent and working poor, for criminal justice, and for education,”<sup>24</sup> not entertainment infrastructure. “If not, then we shouldn’t be asking for money”

## **Conclusion**

Both the cost of stadium construction and the use of tax dollars to subsidize professional sports grew dramatically during the 1990s. Meanwhile, the public rarely sees the economic benefits related to professional sports. In most cases, taxpayer funding of new stadiums and arenas provides enormous benefits to teams and owners, because construction and infrastructure costs are covered and teams are relieved of facility operating costs, which can run from \$10 million to \$20 million or more annually. Additionally, new and expanded revenues are tapped through luxury suites, club seats, stadium naming rights, revenues from other facility events, and higher ticket prices generally go to the owners and players of sports franchises, and not the public entities that made them possible. Simply, the public funds the construction of a stadium or arena but the revenues generated by its use overwhelmingly go to private interests.

There is virtually no evidence to demonstrate that such spending has had anything but a negligible impact on employment, tax revenues, and regional income. Experts argue that a considerable portion of spending received by teams and vendors as revenues is not retained in the local economy. Additionally, if a team were to relocate, then some portion of the spending on tickets and concessions by local residents would shift to other

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<sup>22</sup> Interview – Larry Gossett

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

local spending for attendance at other sports events or other recreational activities. The amount of spending in the economy that would be lost, rather than the total current spending, is the valid measure of a team's local economic benefit.

All in all, “the economic benefits of sports facilities are *de minimus*.”<sup>25</sup> Nevertheless, when public money invested directly in the construction of sports stadiums, a city may compromise its ability to address other important priorities. Cities that are having trouble keeping police and firefighters on the streets or adequately funding their public education systems are increasingly spending hundreds of millions of dollars to bid teams away from other, equally hard-pressed, cities, and to build a new major sports stadium or arena. The decision to build a new stadium or arena represents a tradeoff between the traditional elements of public good and new forms public entertainment. Industry experts estimate that more than \$7 billion will be spent on new facilities for professional sports teams before 2006, and most of that will come from public sources.

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<sup>25</sup>Noll and Zimbalist, p. 36.