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## Sports, Jobs, & Taxes: Are New Stadiums Worth the Cost?

By: Andrew Zimbalist and Roger G. Noll

***To find out more, see Roger Noll and Andrew Zimbalist's edited book, Sports, Jobs, and Taxes: The Economic Impact of Sports Teams and Stadiums.***

America is in the midst of a sports construction boom. New sports facilities costing at least \$200 million each have been completed or are under way in Baltimore, Charlotte, Chicago, Cincinnati, Cleveland, Milwaukee, Nashville, San Francisco, St. Louis, Seattle, Tampa, and Washington, D.C., and are in the planning stages in Boston, Dallas, Minneapolis, New York, and Pittsburgh. Major stadium renovations have been undertaken in Jacksonville and Oakland. Industry experts estimate that more than \$7 billion will be spent on new facilities for professional sports teams before 2006.

Most of this \$7 billion will come from public sources. The subsidy starts with the federal government, which allows state and local governments to issue tax-exempt bonds to help finance sports facilities. Tax exemption lowers interest on debt and so reduces the amount that cities and teams must pay for a stadium. Since 1975, the interest rate reduction has varied between 2.4 and 4.5 percentage points. Assuming a differential of 3 percentage points, the discounted present value loss in federal taxes for a \$225 million stadium is about \$70 million, or more than \$2 million a year over a useful life of 30 years. Ten facilities built in the 1970s and 1980s, including the Superdome in New Orleans, the Silverdome in Pontiac, the now-obsolete Kingdome in Seattle, and Giants Stadium in the New Jersey Meadowlands, each cause an annual federal tax loss exceeding \$1 million.

State and local governments pay even larger subsidies than Washington. Sports facilities now typically cost the host city more than \$10 million a year. Perhaps the most successful new baseball stadium, Oriole Park at Camden Yards, costs Maryland residents \$14 million a year. Renovations aren't cheap either: the net cost to local government for refurbishing the Oakland Coliseum for the Raiders was about \$70 million.

Most large cities are willing to spend big to attract or keep a major league franchise. But a city need not be among the nation's biggest to win a national competition for a team, as shown by the NBA's Utah Jazz's Delta Center in Salt Lake City and the NFL's Houston Oilers' new football stadium in Nashville.

### **Why Cities Subsidize Sports**

The economic rationale for cities' willingness to subsidize sports facilities is revealed in the campaign slogan for a new stadium for the San Francisco 49ers: "Build the Stadium—Create the Jobs!" Proponents claim that sports facilities improve the local economy in four ways. First, building the facility creates construction jobs. Second, people who attend games or work for the team generate new spending in the community, expanding local employment. Third, a team attracts tourists and companies to the host city, further increasing local spending and jobs. Finally, all this new spending has a "multiplier effect" as increased local income causes still more new spending and job creation. Advocates argue that new stadiums spur so much economic growth that they are self-financing: subsidies are offset by revenues from ticket taxes, sales taxes on concessions and other spending outside the stadium, and property tax increases arising from the stadium's economic impact.

Unfortunately, these arguments contain bad economic reasoning that leads to overstatement of the benefits of stadiums. Economic growth takes place when a community's resources—people, capital investments, and natural resources like land—become more productive. Increased productivity can arise in two ways: from economically beneficial specialization by the community for the purpose of trading with other regions or from local value added that is higher than other uses of local workers, land, and investments. Building a stadium is good for the local economy only if a stadium is the most productive way to make capital investments and use its workers.

In our forthcoming Brookings book, *Sports, Jobs, and Taxes*, we and 15 collaborators examine the local economic development argument from all angles: case studies of the effect of specific facilities, as well as comparisons among cities and even neighborhoods that have and have not sunk hundreds of millions of dollars into sports development. In every case, the conclusions are the same. A new sports facility has an extremely small (perhaps even negative) effect on overall

economic activity and employment. No recent facility appears to have earned anything approaching a reasonable 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 metropolitan area, the economic benefits of sports facilities are de minimus.

As noted, a stadium can spur economic growth if sports is a significant export industry—that is, if it attracts outsiders to buy the local product and if it results in the sale of certain rights (broadcasting, product licensing) to national firms. But, in reality, sports has little effect on regional net exports.

Sports facilities attract neither tourists nor new industry. Probably 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 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.

Sports teams do collect substantial revenues from national licensing and broadcasting, but these must be balanced against funds leaving the area. Most professional athletes do not live where they play, so their income is not spent locally. Moreover, players make inflated salaries for only a few years, so they have high savings, which they invest in national firms. Finally, though a new stadium increases attendance, ticket revenues are shared in both baseball and football, so that part of the revenue gain goes to other cities. On balance, these factors are largely offsetting, leaving little or no net local export gain to a community.

One promotional study estimated that the local annual economic impact of the Denver Broncos was nearly \$120 million; another estimated that the combined annual economic benefit of Cincinnati's Bengals and Reds was \$245 million. Such promotional studies overstate the economic impact of a facility because they confuse gross and net economic effects. Most spending inside a stadium is a substitute for other local recreational spending, such as movies and restaurants. Similarly, most tax collections inside a stadium are substitutes: as other entertainment businesses decline, tax collections from them fall.

Promotional studies also fail to take into account differences between sports and other industries in income distribution. Most sports revenue goes to a relatively few players, managers, coaches, and executives who earn extremely high salaries—all well above the earnings of people who work in the industries that are substitutes for sports. Most stadium employees work part time at

very low wages and earn a small fraction of team revenues. Thus, substituting spending on sports for other recreational spending concentrates income, reduces the total number of jobs, and replaces full-time jobs with low-wage, part-time jobs.

A second rationale for subsidized stadiums is that stadiums generate more local consumer satisfaction than alternative investments. There is some truth to this argument. Professional sports teams are very small businesses, comparable to large department or grocery stores. They capture public attention far out of proportion to their economic significance. Broadcast and print media give so much attention to sports because so many people are fans, even if they do not actually attend games or buy sports-related products.

A professional sports team, therefore, creates a "public good" or "externality"—a benefit enjoyed by consumers who follow sports regardless of whether they help pay for it. The magnitude of this benefit is unknown, and is not shared by everyone; nevertheless, it exists. As a result, sports fans are likely to accept higher taxes or reduced public services to attract or keep a team, even if they do not attend games themselves. These fans, supplemented and mobilized by teams, local media, and local interests that benefit directly from a stadium, constitute the base of political support for subsidized sports facilities.

### **The Role of Monopoly Leagues**

While sports subsidies might owe from externalities, their primary cause is the monopolistic structure of sports. Leagues maximize their members' profits by keeping the number of franchises below the number of cities that could support a team. To attract teams, cities must compete through a bidding war, whereby each bids its willingness to pay to have a team, not the amount necessary to make a team viable.

Monopoly leagues convert fans' (hence cities') willingness to pay for a team into an opportunity for teams to extract revenues. Teams are not required to take advantage of this opportunity, and in two cases—the Charlotte Panthers and, to a lesser extent, the San Francisco Giants—the financial exposure of the city has been the relatively modest costs of site acquisition and infrastructural investments. But in most cases, local and state governments have paid over \$100 million in stadium subsidy, and in some cases have financed the entire enterprise.

The tendency of sports teams to seek new homes has been intensified by new stadium technology. The rather ordinary cookie-cutter, multipurpose facility of the 1960s and 1970s has given way to the elaborate, single-sport facility that features numerous new revenue opportunities: luxury suites, club boxes, elaborate concessions, catering, signage, advertising,

theme activities, and even bars, restaurants, and apartments with a view of the field. A new facility now can add \$30 million annually to a team's revenues for a few years after the stadium opens.

Because new stadiums produce substantially more revenues, more cities are now economically viable franchise sites—which explains why Charlotte, Jacksonville, and Nashville have become NFL cities. As more localities bid for teams, cities are forced to offer ever larger subsidies.

### **What Can Be Done?**

Abuses from exorbitant stadium packages, sweetheart leases, and footloose franchises have left many citizens and politicians crying foul. What remedy, if any, is available to curb escalating subsidies and to protect the emotional and financial investments of fans and cities?

In principle, cities could bargain as a group with sports leagues, thereby counterbalancing the leagues' monopoly power. In practice, this strategy is unlikely to work. Efforts by cities to form a sports-host association have failed. The temptation to cheat by secretly negotiating with a mobile team is too strong to preserve concerted behavior.

Another strategy is to insert provisions in a facility lease that deter team relocation. Many cities have tried this approach, but most leases have escape clauses that allow the team to move if attendance falls too low or if the facility is not in state-of-the-art condition. Other teams have provisions requiring them to pay tens of millions of dollars if they vacate a facility prior to lease expiration, but these provisions also come with qualifying covenants. Of course, all clubs legally must carry out the terms of their lease, but with or without these safeguard provisions, teams generally have not viewed their lease terms as binding. Rather, teams claim that breach of contract by the city or stadium authority releases them from their obligations. Almost always these provisions do not prevent a team from moving.

Some leases grant the city a right of first refusal to buy the team or to designate who will buy it before the team is relocated. The big problem here is the price. Owners usually want to move a team because it is worth more elsewhere, either because another city is building a new facility with strong revenue potential or because another city is a better sports market. If the team is worth, say, \$30 million more if it moves, what price must the team accept from local buyers? If it is the market price (its value in the best location), an investor in the home city would be foolish to pay \$30 million more for the franchise than it is worth there. If the price is the value of the

franchise in its present home, the old owner is deprived of his property rights if he cannot sell to the highest bidder. In practice, these provisions typically specify a right of first refusal at market price, which does not protect against losing a team.

Cities trying to hold on to a franchise can also invoke eminent domain, as did Oakland when the Raiders moved to Los Angeles in 1982 and Baltimore when the Colts moved to Indianapolis in 1984. In the Oakland case, the California Court of Appeals ruled that condemning a football franchise violates the commerce clause of the U.S. Constitution. In the Colts case, the condemnation was upheld by the Maryland Circuit Court, but the U.S. District Court ruled that Maryland lacked jurisdiction because the team had left the state by the time the condemnation was declared. Eminent domain, even if constitutionally feasible, is not a promising vehicle for cities to retain sports teams.

### **Ending Federal Subsidies**

Whatever the costs and benefits to a city of attracting a professional sports team, there is no rationale whatsoever for the federal government to subsidize the financial tug-of-war among the cities to host teams.

In 1986, Congress apparently became convinced of the irrationality of granting tax exemptions for interest on municipal bonds that financed projects primarily benefiting private interests. The 1986 Tax Reform Act denies federal subsidies for sports facilities if more than 10 percent of the debt service is covered by revenues from the stadium. If Congress intended that this would reduce sports subsidies, it was sadly mistaken. If anything, the 1986 law increased local subsidies by cutting rents below 10 percent of debt service.

Last year Senator Daniel Patrick Moynihan (D-NY), concerned about the prospect of a tax exemption for a debt of up to \$1 billion for a new stadium in New York, introduced a bill to eliminate tax-exempt financing for professional sports facilities and thus eliminate federal subsidies of stadiums. The theory behind the bill is that raising a city's cost from a stadium giveaway would reduce the subsidy. Although cities might respond this way, they would still compete among each other for scarce franchises, so to some extent the likely effect of the bill is to pass higher interest charges on to cities, not teams.

### **Antitrust and Regulation**

Congress has considered several proposals to regulate team movement and league expansion. The first came in the early 1970s, when the Washington Senators left for Texas. Unhappy baseball fans on Capitol Hill commissioned an inquiry into professional sports. The ensuing report

recommended removing baseball's antitrust immunity, but no legislative action followed. Another round of ineffectual inquiry came in 1984-85, following the relocations of the Oakland Raiders and Baltimore Colts. Major league baseball's efforts in 1992 to thwart the San Francisco Giants' move to St. Petersburg again drew proposals to withdraw baseball's cherished antitrust exemption. As before, nothing came of the congressional interest. In 1995-96, inspired by the departure of the Cleveland Browns to Baltimore, Representative Louis Stokes from Cleveland and Senator John Glenn of Ohio introduced a bill to grant the NFL an antitrust exemption for franchise relocation. This bill, too, never came to a vote.

The relevance of antitrust to the problem of stadium subsidies is indirect but important. Private antitrust actions have significantly limited the ability of leagues to prevent teams from relocating. Teams relocate to improve their financial performance, which in turn improves their ability to compete with other teams for players and coaches. Hence, a team has an incentive to prevent competitors from relocating. Consequently, courts have ruled that leagues must have "reasonable" relocation rules that preclude anticompetitive denial of relocation. Baseball, because it enjoys an antitrust exemption, is freer to limit team movements than the other sports.

Relocation rules can affect competition for teams because, by making relocation more difficult, they can limit the number of teams (usually to one) that a city is allowed to bid for. In addition, competition among cities for teams is further intensified because leagues create scarcity in the number of teams. Legal and legislative actions that change relocation rules affect which cities get existing teams and how much they pay for them, but do not directly affect the disparity between the number of cities that are viable locations for a team and the number of teams. Thus, expansion policy raises a different but important antitrust issue.

As witnessed by the nearly simultaneous consideration of creating an antitrust exemption for football but denying one for baseball on precisely the same issue of franchise relocation, congressional initiatives have been plagued by geographical chauvinism and myopia. Except for representatives of the region affected, members of Congress have proven reluctant to risk the ire of sports leagues. Even legislation that is not hampered by blatant regional self-interest, such as the 1986 Tax Reform Act, typically is sufficiently riddled with loopholes to make effective implementation improbable. While arguably net global welfare is higher when a team relocates to a better market, public policy should focus on balancing the supply and demand for sports franchises so that all economically viable cities can have a team. Congress could mandate league expansion, but that is probably impossible politically. Even if such legislation were passed, deciding which city deserves a team is an administrative nightmare.

A better approach would be to use antitrust to break up existing leagues into competing business entities. The entities could collaborate on playing rules and interleague and postseason play, but they would not be able to divvy up metropolitan areas, establish common drafts or player market restrictions, or collude on broadcasting and licensing policy. Under these circumstances no league would be likely to vacate an economically viable city, and, if one did, a competing league would probably jump in. Other consumer-friendly consequences would flow from such an arrangement. Competition would force ineffective owners to sell or go belly up in their struggle with better managed teams. Taxpayers would pay lower local, state, and federal subsidies. Teams would have lower revenues, but because most of the costs of a team are driven by revenues, most teams would remain solvent. Player salaries and team profits would fall, but the number of teams and player jobs would rise.

Like Congress, the Justice Department's Antitrust Division is subject to political pressures not to upset sports. So sports leagues remain unregulated monopolies with de facto immunity from federal antitrust prosecution. Others launch and win antitrust complaints against sports leagues, but usually their aim is membership in the cartel, not divestiture, so the problem of too few teams remains unsolved.

### **Citizen Action**

The final potential source of reform is grassroots disgruntlement that leads to a political reaction against sports subsidies. Stadium politics has proven to be quite controversial in some cities. Some citizens apparently know that teams do little for the local economy and are concerned about using regressive sales taxes and lottery revenues to subsidize wealthy players, owners, and executives. Voters rejected public support for stadiums on ballot initiatives in Milwaukee, San Francisco, San Jose, and Seattle, although no team has failed to obtain a new stadium. Still, more guarded, conditional support from constituents can cause political leaders to be more careful in negotiating a stadium deal. Initiatives that place more of the financial burden on facility users—via revenues from luxury or club boxes, personal seat licenses (PSLs), naming rights, and ticket taxes—are likely to be more popular.

Unfortunately, citizen resistance notwithstanding, most stadiums probably cannot be financed primarily from private sources. In the first place, the use of money from PSLs, naming rights, pouring rights, and other private sources is a matter to be negotiated among teams, cities, and leagues. The charges imposed by the NFL on the Raiders and Rams when they moved to Oakland and St. Louis, respectively, were an attempt by the league to capture some of this (unshared) revenue, rather than have it pay for the stadium.

Second, revenue from private sources is not likely to be enough to avoid large public subsidies. In the best circumstance, like the NFL's Charlotte Panthers, local governments still pay for investments in supporting infrastructure, and Washington still pays an interest subsidy for the local government share. And the Charlotte case is unique. No other stadium project has raised as much private revenue. At the other extreme is the disaster in Oakland, where a supposedly break-even financial plan left the community \$70 million in the hole because of cost overruns and disappointing PSL sales.

Third, despite greater citizen awareness, voters still must cope with a scarcity of teams. Fans may realize that subsidized stadiums regressively redistribute income and do not promote growth, but they want local teams. Alas, it is usually better to pay a monopoly an exorbitant price than to give up its product.

Prospects for cutting sports subsidies are not good. While citizen opposition has had some success, without more effective intercity organizing or more active federal antitrust policy, cities will continue to compete against each other to attract or keep artificially scarce sports franchises. Given the profound penetration and popularity of sports in American culture, it is hard to see an end to rising public subsidies of sports facilities.

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