TO BUILD OR NOT TO BUILD: AN ANALYSIS OF THE BENEFITS OF NEW SPORTS FACILITIES

by Mark L. Mitchell

Is the time and money being devoted by local governments to the issue of sports stadium and arena construction worth the effort? To be certain, sports franchises are unique businesses that involve communities in ways other businesses do not. The community's sense of attachment to and involvement with the Dallas Cowboys, the Seattle Mariners or the Colorado Avalanche is distinct from responses on the expansion or relocation of a manufacturing business or the construction of a new mall. This article explores the current atmosphere of stadium and arena construction and the debate surrounding the benefits of such construction, the development of the sports industry's economic structure and its impact on the playing venue issue, and the effect of new playing venues on team values.

Stadium And Arena Construction

Los Angeles Rams Move To St. Louis

In January 1995 the Los Angeles Rams announced they were moving to St. Louis for the 1995 National Football League (NFL) season. St. Louis was selected because of the city's generosity and the large real estate development known as the Trans World Dome. The Rams were assured stadium revenue of $20 million annually, including all earnings from 120 luxury suites and 6,200 club seats (which St. Louis guaranteed would be 85 percent sold), all the revenue from concessions and 75 percent of stadium advertising sales. The deal also included funds up to $60 million from the sale of personal seat licenses—an instrument requiring fans to pay up to $4,500 just for the right to buy a season ticket—which the Rams would use to cover existing debts, relocation costs and the expense of a new training facility. The rent paid by the Rams would be only $250,000 a year, estimated as the fifth lowest in the NFL when the lease was signed, and significantly less than the $1.8 million paid by the Rams for the use of Anaheim Stadium. The cost of the Trans World Dome, an estimated $280 million, was borne entirely by state and local taxpayers.

Cleveland Browns Move To Baltimore

In November 1995 the Cleveland Browns announced they were moving to Baltimore for the 1996 NFL season because of a large real estate development in the form of an as-yet-to-be-named football stadium and the generosity of the city of Baltimore. The move provided an opportunity for Art Modell, the majority owner of the Cleveland NFL franchise,

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to increase revenues by as much as $30 million annually through a favorable lease arrangement on the new facility. Under a 30-year agreement with the Maryland Stadium Authority, the Browns will pay stadium operating expenses of approximately $3 million per year. However, they will have use of the stadium rent-free, and they will keep all revenue from concessions, parking, stadium advertising and 108 luxury boxes and 7,500 club seats. The Browns would keep as much as $75 million generated from the sale of personal seat licenses which would cover moving expenses and any relocation fee required by NFL owners. In addition, a $15 million training facility would be constructed. The stadium's estimated cost of approximately $200 million was being generated through public funding.

Houston Oilers Move To Nashville

In May 1996 voters in Nashville, Tennessee approved the sale of $80 million of general obligation bonds, clearing the way for the NFL's Houston Oilers move to Nashville for the 1998 season. The team will play in a new $292 million stadium funded in part by a city commitment of $149.5 million, part of which will be satisfied by general obligation bonds with the remainder garnered from surplus funds in the city's water department and rent collected at the stadium. The agreement with Nashville included $28 million in relocation costs for the Oilers and, according to reports in the *Houston Chronicle*, lease terms that will provide Oilers' owner Bud Adams with approximately $350 million in revenues for the first 10 years of the 30-year lease.

Other New Facilities

The NFL isn't the only professional sports league enjoying a stadium-building boon. According to reports in *Forbes*, June 1994, more than $1 billion has been spent for facilities which opened since 1992, ground has been broken for another $1.5 billion and plans are underway for an additional $5 billion in construction by the end of the decade.[1] For example, the city of Cleveland built Jacobs Field, a major league baseball park, for the Indians and Gateway Arena for the NBA Cavaliers at a total cost of $236 million. In March, voters in Detroit overwhelmingly approved public funding for the Tigers' new baseball stadium at a total cost of $235 million. In October 1995, ground was broken on a $175 million sports arena in Washington, D.C. for the Washington Bullets of the NBA and the Washington Capitals of the NHL. The District of Columbia committed $56 million in funding to be raised through a bond issue. The Seattle Mariners have approval to build a $320 million retractable roof stadium with $107 million in funds from the state of Washington and the balance from local tax hikes. In fact, the *Dallas Morning News* has reported that 49 out of 113 major league franchises in hockey, basketball, football and baseball are considering a relocation unless a new arena or stadium is built or lease concessions are granted by the landlord.[2]

The Sports Industry

To place in perspective the sports franchise relocation and stadium/arena issues, it is helpful to examine certain structural elements of the sports industry beginning with monopoly factors. The first antitrust legislation was the Sherman Act of 1890 passed by Congress in response to widespread trust formation. Companies in a variety of industries combined collusively to limit supplies and raise prices, thus placing a firm's voting stock into a so-called trust agreement which provided for collective action and profit sharing. The Sherman Act made it illegal to monopolize trade and outlawed all combination or conspiracy in restraint of trade.

While the vigor with which antitrust policies have been enforced over the years has varied with the political climate, the dilemma posed for the sports business was obvious. The basic form of the sports business, the league, was a monopoly to restrain and control the commerce of staging games. The Supreme Court granted professional baseball an antitrust exemption in 1922 in *Federal Baseball Club v. The National League*. In this case, the court ruled that baseball was not engaged in interstate commerce and was, instead, the country's national pastime and not subject to federal regulation.

The NFL later argued that the Federal Baseball Club exemption ought to cover football as well. The court did not agree and ruled it was Congress' responsibility to remedy the situation. While the NFL has never received a blanket exemption from antitrust law, in 1961 a limited exemption was granted to allow the league's member clubs to collectively bargain for and share equally in network television revenues. A limited exemption also was granted in 1966 to allow for the merger of the National and American Leagues.

The NFL's battle for special status under antitrust law highlights one of the most fundamental aspects of professional team sports; each professional sports league operates under a monopolistic structure. "In simplest terms, professional sports is a closed club with a limited number of memberships. Within that club, the value of each membership continually rises, regardless of individual appeal, because the number of memberships is fixed."[3] Such practices as player drafts, exclusive broadcast rights and the control of markets and expansion are anti-competitive in nature. Over the years, some of these issues, principally player movement, have been successfully challenged in court, but each league controls the actual staging of games and the awarding of franchises.

Oakland Raiders
Franchise relocation in the NFL was irretrievably altered by the Oakland Raiders in 1980. When the Los Angeles Rams decided to leave the Los Angeles Coliseum in 1978 to play their games in Anaheim Stadium, the Los Angeles Memorial Coliseum Commission (LAMCC), facing substantial operating losses with the departure, decided to lure another NFL team into the Coliseum. On March 1, 1980, Al Davis reached agreement with the LAMCC and announced that the Oakland Raiders were moving to Los Angeles. Subsequent to this announcement, the NFL filed suit against Davis, and he filed suit against the league claiming antitrust violations. On May 7, 1982, the jury decided in favor of Davis, ruling that Section 4.3 of the NFL constitution violated the Sherman Act and that the league had breached its contractual duty of good faith and fair dealing. Section 4.3 required that a franchise receive prior approval from the other NFL teams before transferring to a different city outside its home territory. If the proposed transfer was to a location within the home territory of any other club, approval would require a unanimous vote; any other transfer required an affirmative vote of at least three-fourths of the league's members.[4]

Baltimore Colts
One of the most significant aspects of Davis' successful move to Los Angeles was the leverage it gave owners in negotiating improved stadium leases or in obtaining a new stadium. In 1984, Robert Irsay took advantage of this circumstance and moved the Baltimore Colts to Indianapolis. This city was so eager for an NFL franchise that it guaranteed Irsay annual revenues of $7 million, a $4 million office and training-center complex and more than $12 million in loans. Also, Bill Bidwill, owner of the St. Louis Cardinals, moved his team to Phoenix prior to the 1989 season.[5]

Thus, the stadium game being played by sports franchise owners is a simple matter of supply and demand. With supply restricted, the demand for teams exceeds the supply of teams. As long as this persists, municipalities without teams will serve as leverage for team owners looking to upgrade the status of their team's stadium or arena. For the owners, the impetus to seek a new playing venue is a simple matter of economics. New venues translate into increased profits. The key component of most new stadiums and arenas is the addition of luxury suites whose revenues are typically retained by franchise owners. This is particularly important in the NFL where revenue sharing among the teams is so pronounced. Television contracts with the networks and cable channels generate approximately two-thirds of the NFL's total revenues from admission and broadcast receipts. The rights fees paid by broadcasters are shared equally among NFL teams. In addition gate receipts are split with the home team retaining 60 percent of revenues and the visiting team taking 40 percent, after expenses are paid. Stadium-generated revenues are not subject to profit sharing, and the absence of such revenues is cited by owners, such as Art Modell of the Browns, as a competitive factor in placing a winning team on the field.

Cleveland Indians And The Texas Rangers
Luxury suites are not the only story for franchise owners. The Cleveland Indians and Texas Rangers have seen attendance increases of more than 50 percent in their new stadiums despite ticket prices that are 30 percent higher than ticket prices were at their old venues. In fact, according to economists James Quirk and Rodney Fort, baseball teams draw 62 percent more fans during their first five years in a new stadium than they did during the previous five years in an old stadium.[6] This is particularly important in baseball where admission revenues are typically the single largest source of potential income.[7]

Franchise Values
Revenue multiples for franchises in the four major sports generally have been in the range of 2.0 to 3.0 with football and basketball franchise values falling at the high end of the range on average. Hockey and baseball franchise values generally fall from the middle to the low end of the range on average.[8] With new playing venues generating between $10 million and $40 million worth of additional revenues for franchise owners, it is clear that much of the benefit accrues to team owners in the form of increased franchise values. For example, reported estimates on the increase in value of the Cleveland Browns (now the Ravens), as a result of their move to Baltimore, were approximately $40 million (from $160 million to $200 million). Likewise, the valuation of the St. Louis Rams increased by a similar amount as a result of the guaranteed revenue-generating capacity of the Trans World Dome.[9] When stadiums are funded primarily through public means, taxpayers are subsidizing franchise operations.

The increasing importance of stadium arrangements has altered the factors influencing franchise values. Prior to 1983, a magazine article noted that "close consideration should be paid to the location of a franchise when determining a value for the franchise right itself" because "the right to operate as a monopoly in Chicago, New York or Los Angeles is worth more than a similar right to operate in Portland, Kansas City or San Antonio."[10] As noted in a 1978 article in *Sports Illustrated* on money in sports, "one franchise in a market that can support two teams equals double the demand, which equals higher ticket prices, which equals greater profits."[11] With the current absence of an NFL team

from the Los Angeles market, it is interesting to contrast this development with the LAMCC's efforts in 1978 to lure a team to the Coliseum. In addition to discussions with Al Davis, the LAMCC attempted to convince Ralph Wilson, owner of the Buffalo Bills, to move his team to Los Angeles. Wilson spoke with the LAMCC several times during the last half of 1978. According to Bill Robertson, then LAMCC president, "Wilson said that he would love to be playing in Los Angeles . . . because of what he saw as the tremendous potential here because of our population."[12]

Market size is not the influence it once was in the NFL as evidenced by both the Rams and Raiders deciding to exit the Number 2 television market in the nation for St. Louis (Number 20) and Oakland, respectively (splitting the Number 5 Bay Area market with the San Francisco 49ers), the Browns leaving Number 13 Cleveland for Number 23 Baltimore, and the Oilers leaving Houston, the Number 11 television market for Number 33 Nashville. Freedom of movement combined with monopolistic restriction of supply and a willingness on the part of cities to transfer wealth to team owners through the construction of new stadiums have led to the increased importance of stadium arrangements in the creation of value in all sports.

Economic Benefits Of Professional Sports Investments For Communities

Rosentraub And Nunn

As far back as 1978, authors Rosentraub and Nunn explored the economic benefits of professional sports investments by suburban cities, focusing on Arlington, Texas (home of the Texas Rangers major league baseball team) and Irving, Texas (home of the Dallas Cowboys professional football team). The city of Arlington enticed the Washington Senators move to Texas from the nation's capital in 1972, and in 1971 the city of Irving brought the Cowboys from Dallas to the suburbs to play in Texas Stadium. The authors concluded that, within the limits of their study, both cities had difficulty capturing the benefits of their investment. Neither did as well economically as comparison communities when measured by sales and property tax collections and municipal expenditures and debt levels. Further, economic benefits were regional rather than local, although the risks in terms of costs were born locally rather than regionally.[13]

Colclough, Daellenbach And Sherony

Colclough, Daellenbach and Sherony adapted the Regional Input-Output Modeling System (RIMS II), compiled by the U.S. Department of Commerce, Bureau of Economic Analysis, to examine the economic impact of a minor league baseball stadium in La Crosse, Wisconsin. The general theory underlying RIMS II is that autonomous spending injections, usually from outside the community, produce increased sales and income for local residents. A multiplier effect occurs when these residents, in turn, spend part of the additional income locally, thus creating more sales, income and jobs in the community. RIMS II includes multipliers for 531 business and industrial sectors and 38 aggregate sectors for individual counties or multi-county areas in the United States. While the paper's focus was the construction of a measurement model, the estimate developed by the authors for the annual economic impact of the baseball stadium was less than one-third the impact cited by stadium proponents when soliciting support for the project. The authors suggested that communities consider benefits other than economic factors, including entertainment value, community identity and quality of life.[14]

Image

In fact, the stadium/arena debate often boils down to proponents citing intangible or indirect benefits while opponents quote from numerous academic studies. Thus, it appears that direct economic benefits are limited. Image, a key concern for political leaders who aspire to create a national presence for their community, is one such intangible benefit. Mayor Philip Bredesen of Nashville cites the desire for his city to be like Charlotte, North Carolina, Orlando, Florida and Jacksonville, Florida, all growing southern cities with one or more professional sports franchises. What benefits result from creating the image of a big league town? Mayor Bredesen suggests that image attracts business, spurs development and keeps younger Nashville residents from leaving for New York, Chicago or San Francisco.[15] Likewise, Dick Kravitz, city council president of Jacksonville (the Jaguars began play in 1995 as an NFL expansion team) said the city hopes the team's presence will sharpen Jacksonville's image as a place to live and do business. Primarily for that purpose, Jacksonville underwrote the $135 million refurbishment of its Gator Bowl.[16] John Fondersmith, chief of Washington, D.C.'s Office of Planning, says that city officials hope the new arena for the Bullets and Capitals will revitalize a long blighted area in the Gallery Place district and spawn a new entertainment district serving downtown and government offices.[17]

Robert Baade

Studies suggest that the reality of achieving collateral benefits from a move into the big leagues is far from clear. In such a study, Robert Baade, an economics professor at Lake Forest College in Illinois, looked at 48 United States cities between 1958 and 1987, including 36 cities with professional teams in one of the four major team sports: baseball, football, basketball and hockey. In conclusion Baade

explains, "For professional sports to contribute significantly to the local economy, it must induce large net increases in spending. In the short run, local spending by sports fans does not represent an increase in spending on leisure activity but is merely a diversion of leisure dollars from other activities. People have only so much to spend on fun and games, so what goes for the home team comes out of what would have gone for movie or theater tickets, concerts, museums, tractor pulls, whatever."[18] In addition, Baade's study found no evidence to suggest a professional sports franchise is an important factor in business location. Further, the multiplier effects were not of a magnitude to suggest that sports facilities expenditures were worthwhile. Baade noted that in studies supporting public subsidies, projects were worthwhile if they induced indirect expenditures of $3 for every $1 of public money spent. However, he found the recent norm for stadium multipliers was two or less.

Roger G. Noll

Roger G. Noll, a professor of economics and public policy at Stanford University, acknowledges that direct economic benefits are limited; however, he does agree that municipal spending to attract and keep professional sports teams has certain intangible effects. "Our psychic investment in sports is disproportionate to its economic importance to a city. Why make the phony economic development arguments when the value of sports teams is clearly from the pleasure they provide."[19] The absence of direct economic benefits may also be offset to some degree by other development. Baltimore and Cleveland have made their new baseball stadiums a part of a larger downtown renewal. If such stadiums actually succeed in spurring renewal and creating the political will for such redevelopment, their direct economic effects may be irrelevant.

Empty Stadiums

As some cities have discovered, building a stadium or arena doesn't necessarily guarantee a big league tenant. St. Petersburg, Florida built its Suncoast Dome in 1991 before the city landed a professional team. In 1998, an expansion major league baseball team, the Devil Rays, will begin play there. In the interim, the stadium has cost the city up to $8 million a year in interest on construction loans. Plus the stadium's meager schedule for concerts and tractor-pull events is also producing a deficit. According to Connie Kone, a member of the St. Petersburg City Council, the tax increases needed to support construction of the stadium actually drove some residents and businesses out of the city.[20]

Nashville's first building effort has come up empty so far. Mayor Bredesen pushed through approval for a 20,000-seat downtown arena to be financed by property taxes with the intention of seeking NBA and NHL franchises. Although the New Jersey Devils seriously considered a move, they ultimately decided to stay put.

Conclusion

The construction of stadiums and arenas is the sports industry's latest development to enhance revenue production for team owners. The industry's monopolistic structure allows team owners to use franchise locations as leverage in securing improved arrangements for playing venue. The result, particularly in the NFL, has been increased franchise relocation. Based on the results of numerous studies, the question of committing public funds to the construction of stadiums and arenas to keep or attract a franchise should not be based on direct economic benefits. The consideration should be on the community's self-image and the place sports will play in the growth and development of community life.

Public funding of new stadiums and arenas should be recognized as a direct subsidy to franchise owners who reap the benefits of higher operating profits and increased franchise values. This fact, however, does not suggest that it is inappropriate to build sports facilities, in whole or in part, through public funding. Rather, if such plans have citizen support, they should be viewed in the context of the overall goals established for the community's growth and development. After all, to the citizens of any community, sports is about being a fan and uniting in support of the home team. This sentiment is best described in a quote from a recent *Sports Illustrated* article, by Carmen Cangelosi, on the 1929 World Series between the Philadelphia A's and Chicago Cubs. Cangelosi, a 78-year-old retired graphic artist, still remembers sitting in Mason's Dance Hall and listening to the 7th inning of Game 4 on the radio:

> "That inning made me a baseball fan for life.
>
> I was an Athletics fan for life. I still know all the players.
>
> I know where they played. I know
>
> their nicknames: Bucketfoot Al. Double X. Old Reliable. Lefty. Mule.
>
> I know that 10-run inning and who scored and how they scored. Just like it was yesterday at Mason's. I remember when they won the World Series. There was a buzz in the air. An energy. You felt good about yourself, about your city, about everybody around you. It broke my heart when they moved. They're long gone, but I remember everything. I sometimes go to sleep thinking about them. What a team!"[21]