THE MYTH AND REALITY OF THE ECONOMIC DEVELOPMENT FROM SPORTS

by Mark S. Rosentraub

Hardly a week seems to pass without an announcement that a community plans to invest in a stadium or arena to attract or retain a professional sports team. Indeed, the 1990s have been a great decade for the design and construction of sports facilities. Anaheim, Arlington (Texas), Atlanta, Baltimore, Boston, Chicago, Cleveland, Denver, Green Bay, Miami, Minneapolis, Montreal, Nashville, New York, Oakland, Philadelphia, Phoenix, Portland, Salt Lake City, San Antonio, San Jose, Seattle and St. Louis each have had at least one new facility built or an older facility substantially remodeled for major league sports teams. Some communities built two facilities and, as this article is being written, Cincinnati, Dallas, Detroit, Houston, Indianapolis, Los Angeles, Milwaukee, Nashville, Pittsburgh, New York, San Antonio and Seattle are considering or have agreed to build one or more facilities. This listing only enumerates the cities that have agreed to build facilities for major league sports teams. However, countless smaller communities are developing ballparks and arenas for minor league franchises.

New Stadiums Lure Teams

News and announcements of this high business and construction activity usually are met with enthusiasm. Large construction projects hold not only a promise of new jobs and expanded development, but sporting events are attended by millions of people. But, amidst all of this excitement about sports and the accompanying building boom, some dark clouds are visible. For example, reminiscent of the depression that spread across Brooklyn when the Dodgers moved to Los Angeles, Cleveland saw their beloved Browns suddenly move to Baltimore. The Browns' owner was lured by the promise of a new stadium being built and paid for by the public sector. The Baltimore Ravens (the Browns name remains with the city of Cleveland to be used by a new expansion team) pay little or no rent for its use of the stadium. The team also gets to keep virtually all revenues generated on game days.

The Cleveland franchise is not the only team to leave its long-standing fans in search of expanded revenues. Indeed, a game of musical chairs involving cities from coast-to-coast is now underway. Houston's Oilers, a part of Houston for more than 30 years, are off to Nashville lured by a deal strikingly similar to the one given the Baltimore

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Ravens. Winnipeg's Jets left Canada for the more profitable U.S. market, landing in Phoenix where they will share the publicly subsidized America West Arena with the Phoenix Suns. Oakland's Raiders returned back home again after a 13-year stay in Los Angeles. They were drawn back to the Bay Area by the promise of a remodeled stadium with luxury suites, primarily paid for by the public sector, of course. Los Angeles' Rams are now in St. Louis after almost five decades of play in Southern California because they received a lucrative lease on a new domed stadium built by the citizens of St. Louis and Missouri.

Seattle's Mariners and Seahawks have both toyed with relocating in search of a better stadium deal, and the Brewers continue to mention the possibility of leaving Milwaukee if their stadium needs are not addressed. New York, again, is plagued by threats of teams leaving its boundaries and region. The Devils flirted with Nashville, but before rejecting that city's subsidies, renegotiated its existing lease in New Jersey; the Yankees are evaluating its options in New Jersey after more than 80 years of play in New York City, and the NFL's Giants and Jets have already left for New Jersey. The Bengals and Reds both threatened to leave Cincinnati unless they ***each*** received a new stadium paid for by the public sector (which they did), and the Pirates' future in Pittsburgh is still in doubt unless a new stadium is built. The Reds and Pirates have played in their current cities for more than 100 years.

In the last few years numerous cities and counties in several different states have increased taxes to pay for new sports facilities in order to become or stay home to a major league sports team. Teams also have shown their willingness to leave their fans and homes for more profits. The movement of teams and the seeming requirement of increasing taxes to pay for the facilities have prompted some people to wonder if this is an appropriate use of tax dollars. If teams simply move when they get a better deal, should the public sector invest tax dollars in the facilities used by professional sports teams? If the loyalty of the team for its community and fans is as nostalgic as *Leave it to Beaver*, what does the public sector get when it invests in a facility for a team? Are publicly financed ballparks and arenas nothing more than bribes or bounties extracted by the professional sports leagues, or are these expenditures shrewd investments made by the public sector to generate economic development?

While the focus here is on facilities that receive tax support, it should be noted that some arenas and ballparks are privately developed and owned. For example, the new Rose Garden in Portland, the Delta Center in Salt Lake City and the new home of the Carolina Panthers were mostly privately financed and involved minimal investments of the public sector's resources for the improved roads and sewers to complement these facilities. In contrast, however, governments in states as politically different as Maryland, Ohio, Texas, Washington, Florida, Tennessee and California have agreed to contribute to the cost of building a facility. If these expenditures by the government result in the receipt of higher tax revenues, higher levels of economic development or the creation of numerous jobs, the expenditure of tax dollars could be considered a wise use of the public's resources. If, however, the sports facilities built with tax dollars and the teams that use them do not generate substantial economic returns, then governments across America may be providing welfare payments to wealthy team owners and players who earn in excess of $1 million every season. This is hardly a group that needs or deserves subsidies. So, which is it? Is the public's investment in sports a strategic use of tax dollars or is it welfare for the rich?

What Does The Spending On Sports Mean For An Economy?

The production of studies on the economic impact of professional sports teams and the facilities they use has itself become a mini industry. From the largest accounting and management firms to university faculty across the nation, everyone seems able to and interested in producing studies on the economic impact of teams and the facilities they use. Within this environment, wildly different numbers are produced engendering an impression that for the right price you will get whatever number you want. In such a setting it is sometimes hard to know which estimates are valid and which are not. However, a sufficient number of research studies have been reviewed by critics and supporters of investments in sports to permit some general agreement on what are the real economic gains from sports teams and the facilities they use.

The first problem or issue is that in the absence of a team or new ballpark, people will still spend money on recreation. People also will continue to eat in restaurants and visit bars and other night spots if a team leaves a city or never comes to a community. A large portion of the economic activity that occurs at a stadium or arena still will take place even if the team leaves the city or the facility is not built. The transfer of spending that occurs as a result of the team's presence is generally referred to as a substitution effect. Substitution here refers to the enjoyment of one form of recreation over another.

How much substitution is likely to occur? That depends on the type of city being analyzed. For example, in New York City where there are numerous recreational opportunities, the presence or absence of one additional form of entertainment (a

team) will likely have no effect or very marginal impacts. At the other extreme, a small city without a team would have lower levels of substitution if the residents would visit other cities for their recreation. Various studies have projected that for smaller communities at least two-thirds, and perhaps as much as three-quarters of the spending that is associated with a team or facility, is a mere substitution of one form of recreation for another. In larger communities, substitution effects could account for more than four-fifths of the spending that takes place.

All this means that less than 20 percent of the economic activity associated with the spending for sports by fans is real economic development. The real growth in an economy that occurs from sports occurs as a result of people coming to your community because of the existence of a team and the retention of recreational spending by your own residents who do not go elsewhere. However, if nonresidents of your community already come to your city for recreational events (e.g., shows, restaurants, etc.), then the only economic development that occurs because of a team results from the ***extra trips*** they make to your city.

Use Of A Multiplier

Studies of recreation patterns within any city can pinpoint the correct proportion of spending that is a substitution and identify real economic development. The first step to measure the economic development that occurs from spending associated with teams and their facilities is to tabulate the total spent on tickets, souvenirs, food and beverages that can be associated with the event. This figure then should be reduced by at least two-thirds and perhaps as much as 80 to 90 percent to arrive at a true measure of the economic activity associated with teams and the real economic development received by your community. You must remember that the figure remaining after the reduction is the potential for new economic development from sports.

The new dollars or economic development in your local economy also will be recirculated to other people. As such, a multiplier factor needs to be applied. But here, again, some caution has to be taken in the application of a multiplier. If caution is not used, wild numbers are produced to describe the economic development benefits to be realized from a team or new ballpark. Multipliers are based on the spending patterns of average consumers who earn average incomes.

With approximately half of all revenues earned by teams belonging to players, the spending habits of these athletes becomes a central issue in the measure of and specification of the multiplier. Two factors must be kept in mind. *First*, players frequently have permanent homes in other areas. As a result, a substantial portion of their spending may occur hundreds of miles from the team's home. *Second*, players earn their lifetime incomes in a relatively short time period; careers frequently last ten years or less. As a result, athletes often save or invest far larger proportions of their salaries than does the average consumer who is used for the specification of multipliers. Consequently, an adjustment has to be made in the gross figure that is used with any multiplier to compensate for the large portion of the players' salaries that is not spent in any local economy. Generally, the rule of thumb is that at least 50 percent of the players' salaries will not be spent in the team's home community. If players earn about half the revenues received by a team, and if players spend no more than one-half of their incomes in a local economy, then the figure tabulated for real growth should be reduced by one-quarter or 25 percent before the application of a multiplier.

What multiplier should be used? The Department of Commerce issues these figures for most areas of the nation. As a rule, a multiplier of 2 will be an approximate estimate of what can be used.

Economic Impact

When followed, these techniques reveal that the annual economic development impacts of a professional sports team are in the $11 million to $15 million range and are not the hundreds of millions of dollars often suggested or forecasted. Now you're probably thinking this is a surprisingly low figure. Is it really accurate? Well, consider the size of a professional sports team as an economic enterprise before you respond.

In 1995 if the complete major league baseball season had been played, 162 games instead of the 144 because of labor disputes, the gross revenues of just one team, the New York Yankees, would have exceeded $100 million. The average for all baseball teams was $56 million. The National Basketball Association's member teams had similar average gross revenues, and professional football teams have gross revenues, on average, of less than $70 million. Businesses of this magnitude are certainly valuable and important in any economy, but as part of any economy, they are quite small. Indeed, the gross revenues of a typical state university campus in an urban area is about $300 million or at least five times larger than the typical major league baseball team or NBA franchise. Few regard their local university as a "growth engine," capable of producing hundreds of millions of dollars of economic growth. Yet, in reality, these college campuses produce a far greater impact on their economies and are far larger businesses than professional sports teams. Sports teams are not economic growth engines, nor can they, given their size, produce large economic effects in any economy. It is therefore not

surprising that many scholars have not found significant statistical linkage between the presence of a team or the building of a new facility and economic growth. If teams are appreciated for the small recreational businesses that they are, then the size of their developmental impact on an economy is relatively easy to understand.

Job Creation And Professional Sports Teams

Given the rather small economic impact just described, you probably have guessed that professional sports teams also are small contributors to overall job growth. Within the typical professional sports team there may be as many as 60 athletes, a coaching staff of 10 and another 20 people in the front office. The presence of a team also means the creation of numerous part-time jobs at the ballpark or arena. Plus, in the area adjacent to the facility, there are or will be jobs that are created from the opening of new restaurants and retail outlets. Although a portion of these jobs will offset losses in other sections of the region (from the substitution of one form of recreation or dining for another), some new jobs will result. On balance, the presence of a team might lead to the creation of about 150 full-time jobs. As a percentage of the work force in a typical area, this will account for less than one-half of one percent of all private sector jobs. If the public sector invests $100,000,000 in a new stadium and arena to create roughly 200 full-time jobs, the cost of each new job is $500,000. This would hardly be considered a prudent investment of the public's resources for job creation.

The Revenues Earned By Government

Governments can and do receive additional revenue from the economic activity created by teams and the facilities they use. These increased revenues are generated from property, sales and income taxes paid as a result of the new economic development created. However, since the new growth is likely to be quite small, something in the $15 million range, the annual increment in tax revenues received is likely to be quite small. A portion of this money will generate income and sales taxes, but most likely the total will be less than $500,000 given the tax rates used by most states. Some local governments also administer income and sales taxes, but funds from these taxes also will be small. The property taxes generated by new facilities also are usually modest. If the facility is owned by a government, it is exempt. In other instances, favorable exemptions are usually part of the public sector's contributions.

Related Development

Some communities that develop new ballparks or arenas are more interested in a targeted impact than broader-based economic growth. For example, both Indianapolis and Cleveland sought to revitalize their downtown areas through the construction of sports facilities. Indianapolis actually implemented and sustained an amateur and professional sports program across three decades that was designed to anchor development in its downtown area. This program included the building of Market Square Arena (the current home of the Indiana Pacers), the RCA Dome (home to the Indianapolis Colts) and Victory Field (home to the city's AAA minor league baseball franchise). Indianapolis' program included building a large downtown mall, downtown housing, several office buildings, a major theater for its symphony, a new convention center, numerous hotels, restaurants and theaters, a new zoo, a state park, a new state government office center and several museums. In addition, there was an extensive expansion of Indiana University's campus in Indianapolis (IUPUI) which also is adjacent to the downtown area. These policies and programs were implemented by three different mayors across 30 years. Cleveland's efforts, although quite substantial, were a bit more modest than the program implemented in Indianapolis. Cleveland built two large sports facilities, Jacobs Field and Gund Arena, a new theater district, two downtown shopping malls, a revitalized entertainment and restaurant area and at least two new museums. Cleveland State University also is adjacent to one edge of the downtown region. The projects in Cleveland, unlike those in Indianapolis, are distributed in a larger geographic area so as to permit more development across the coming decades if the expansion of the downtown area continues.

While it is too soon to completely evaluate the impact of Cleveland's redevelopment programs, the longer term of Indianapolis' effort permits an evaluation of a redevelopment program that is based on sports to rebuild a downtown area and stimulate an economy. Indianapolis' new downtown, defined by the numerous structures built, did replace a decaying core section with one that is vibrant. This outcome, however, did not bring substantial economic development to the city, the region or the downtown area:

> In relying on sports, Indianapolis' efforts were probably not unlike Louisville's emphasis on the arts to anchor downtown development and Baltimore's emphasis on tourism and the location of the home of the Baltimore Orioles. While there were important achievements which should be attributed to Indianapolis' sports strategy, on balance, it seems fair to conclude there were no significant or substantial shifts in economic development. Simply put, the sports strategy did not achieve its objectives. In 1992, sports accounted for approximately 1.1 percent

of the private sector payroll in downtown Indianapolis and about 3.1 percent of all jobs. In addition, even if all hotel and restaurant jobs are assumed to be a direct result of sports, just 4.3 percent of the private sector payroll was produced by these parts of the private sector economy. As such, other communities' leaders should be quite cautious with regard to possible pay-offs from a sports development program.

The sports and downtown development policy in Indianapolis was part of a series of outcomes that contributed to a partial stabilization of jobs in the downtown area. Although the downtown core's share of regional employment opportunities declined, the absolute number of people working downtown remained relatively unchanged from 1980 to 1990 and above 1970 levels. While this is clearly an important achievement, a portion of the success was due to the expansion of Indiana University and the public sector and the continued growth of downtown Indianapolis' largest employer, the Lilly Corporation.

With these points in mind, the best that can be said for Indianapolis' sports strategy is that it was marginally successful in creating a small number of jobs. Attendance at sporting events did generate a number of service sector and hotel jobs. This growth did create, on an annual basis, more than 100 million new payroll dollars. The growth in service sector jobs may have been related to the relatively high proportion of attendees at sporting events in Indianapolis from outside the region.

This important outcome must be contrasted with other stark realities. The Indianapolis metropolitan area grew faster than the city in terms of new jobs created and total payroll growth. Overall, average salaries in Indianapolis declined in comparison with the salaries in other cities where Indianapolis' leadership believes they compete. Indianapolis slipped from having the second highest average salaries among these ten communities in the 1970s, to fourth or fifth depending on whether the basis of comparison is the city or the metropolitan region. In addition, the entire impact of sports, under the best of circumstances, would amount to only 1.1 percent of the Indianapolis economy.

The Intangible Benefit Of Publicity From Sports

There is no denying that the presence of sports teams creates a good deal of publicity for a city. But does this publicity, or the presence of a sports team, lead to economic development? There is no evidence presented by academicians or consultants to illustrate that the presence of a team either attracts firms or higher income individuals. Business location firms have reported that sports teams do not influence locational choices, and numerous surveys on the value of sports teams as a factor in choosing a site for business development indicate that numerous other factors are far more important. In a study of both residential and business activity within a metropolitan area where cities competed for teams, no city was able to capture the benefits of being the home to a team:

> It comes as no surprise that sports teams produce important image, civic pride and quality of life benefits for all communities in a region. There is also a very small economic impact from a team that enhances a region's economy. However, the decentralized and integrated nature of America's urban economies makes it impossible for any single city to capture a disproportionate share of these benefits regardless of their size or their tangible and intangible nature. As a result, it is very unlikely that any single city investing in sports will be able to capture a substantial portion of the benefits generated. At the regional level, however, image and quality of life benefits may create a shared investment by all cities in professional sports and be a prudent addition to the region's asset base. For any individual city, however, there is insufficient economic, quality of life or image benefits to warrant a large investment. Indeed, given the dispersion of benefits, there is an incentive for other cities in a region to encourage another community to make an investment and then become a free rider enjoying the relatively small gains without supporting the risks taken.

Subsidies And Investments

There is a good deal of money to be made from and in sports. Franchise values remain high and clearly escalate if a team is fortunate enough to play in a new arena or ballpark with luxury suites, club seating and other amenities that generate income. Players, too, are making a great deal of money from sports. Salaries continue to escalate and multi-million, multi-year contracts are now common. Although less than 20 years ago a player earning $1 million per year was extraordinary; today, only $100 million contracts seem to generate astonishment. Money also is being made by the mass media which continues to be interested in broadcasting more and more sporting events and news shows to a worldwide market.

Who is not making money on sports? The cities and states that have made tax money available to build arenas and ballparks for teams seem to be among the select group that is not profiting from sports and the building of new facilities. Indeed, given the profits being realized by most teams and the salaries earned by players, and the relatively

small gains accruing to local economies and governments, the tax dollars committed to build sports facilities represent a form of welfare for the rich. This welfare results from the public sector's lowering the cost of the facilities to owners and players while permitting the teams and their athletes to retain the income generated by the facilities. The sports business is robust; most participants earn a substantial return on their investments or from their labor. The communities that invest their dollars earn very little. As a result, the tax dollars do nothing more than increase the pot of money which is fought over by athletes and team owners to reduce their costs for building a stadium. Some of the most economically privileged people in America are receiving welfare and using these dollars to substantially increase their access to even higher profit and salary levels.

Welfare reform proposals for the unemployed recently have been approved by Congress; virtually every state is considering changes in policies and practices to limit welfare. It is time to extend these ideas and policies to professional sports teams and their facilities. There is no return to the public sector or a region's economy that is worth or can justify the commitment of tax dollars for building an arena or ballpark. It is time for a new contract with America that calls for the elimination of welfare to team owners and players. It also is time for cities to realize the low level of economic returns that are generated by teams and their facilities. It is time to begin treating professional sports like what they really are, the business of entertainment.

Sports is exciting. It creates profits for owners and players and those profits are robust enough to pay for the facilities the teams need and use. Given the small size of the economic gains produced when teams come to areas or when new facilities are built, the provision of tax dollars for teams and their ballparks is nothing more than a subsidy that creates higher incomes for players and more profits for owners. The myth of the economic development which comes from sports is far greater than the reality of that growth.

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