

# Sports Facilities and Economic Development

By Andrew Zimbalist

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Independent scholarly studies have found that a city, county, or state should not anticipate a positive economic or fiscal impact from a new stadium or arena, or from a new team.[1] That is, a new sports facility by itself should not be expected to raise employment or per capita income levels in a community.

## FOUR REASONS

The primary reasons for this outcome are fourfold.

**1. Sports Teams Are Modestly Sized Businesses.** Despite their enormous cultural presence, sports teams are modestly sized businesses. In 2011-12, for instance, the average NBA team generated approximately $130 million in revenue. This equals less than 0.03 percent of the disposable income of New York City. The typical front office of a team employs 70 to 140 people on a full-time basis. Most of the other employees work game days, meaning roughly four hours per game for between 10 and 81 home games per year, depending on the sport. Game day workers (in concessions, catering, ticket sales, ushering, grounds keeping, security) generally number between 800 and 2,000. In the NFL, for instance, with 1,500 game day employees, each working 40 hours per season, there's a total of 60,000 hours per year of work, or the equivalent of 30 full-time, year-round jobs. Moreover, these jobs are basically low-skill, low-wage, and without benefits.

**2. Family Budgets Are Relatively Fixed.** Most families have a relatively fixed budget for leisure activities. If a family spends $300 going to a basketball game, that is $300 it does not have to spend at local theaters, concert halls, museums, bowling alleys, or restaurants. Thus, a good share of the money spent at sporting contests is money that is not spent elsewhere in the local economy — one form of entertainment expenditure substitutes for another.

**3. There Are Leakages.** There are generally larger leakages out of the local economy associated with the professional sports dollar. For instance, NBA players earn about 50 percent of league revenue. The average NBA player earns approximately $5.2 million in salary. His nominal, federal marginal tax rate is close to 40 percent, and he normally has a high savings rate. Fewer than one-third of NBA players make their permanent residence in the same city in which they play.[2] Federal taxes, of course, go to Washington and leave the local economy. Savings enter the world's money market and, generally, also leave the local economy. A significant share of a player's income finds its way back to his hometown or vacation spots. Thus, a lower share of the money spent at professional sports stadiums and arenas relative to other entertainment venues stays in the city.

Promotional studies hired for public relations purposes by stadium proponents typically apply income multipliers of 2 or 3. Yet, under reasonable assumptions about marginal tax, savings, and import rates, the typical sports multiplier is more likely closer to 1. Even this multiplier should be applied only to net new spending, not gross spending, at the sports facility.

**4. Arena and Stadium Projects Create Budgetary Gaps**. In the vast majority of cases, arena and stadium projects create a budgetary gap. This is because since 1990, more than two-thirds of the development costs for the average professional sports facility has been publicly funded, and the typical lease has shared little facility revenue with the local government.[3] When sports facilities create a budgetary gap, it must be compensated for by either higher taxes or a reduction of services — either of which puts a drag on the local economy.

## QUESTIONABLE PROMISES

Financing schemes often promise to have no tax implications for the local population. These proposals need to be carefully considered.

**Tourist Taxes.** One such plan is to levy new "tourist" taxes (i.e., taxes on rental cars and hotel rooms). Assuming the car companies and hotels can pass these taxes on to the consumer, they give the appearance of not hitting households in the metropolitan area. In fact, two outcomes could result from these taxes. First, the higher taxes could discourage tourism or business travelers, potentially decreasing the amount of tax revenue from these sources. Second, the higher taxes might not affect the number of visitors. In this case, the city could levy the taxes and not build the facility, enabling it to increase local services or reduce local taxes. Of course, a combination of these outcomes is also possible. In any event, tourist taxes are not free goods to the local population.

**TIFs.** A second plan is to create a zone around the sports facility and to use what is known as tax increment financing. The idea here is to delineate a geographical area adjacent to the facility and to stipulate that any increase in tax revenues gathered from that area above existing levels, whether from sales or property taxes, will be applied to finance the debt service on the facility bonds. The problem with such a plan is that the increase in spending (or property values) in the stadium or arena zone is likely to come at the expense of spending in other areas of the city. To the extent this is so, the facility itself is not responsible for any net tax revenue citywide, and applying the increment to debt service will mean less revenue for other functions in the local government budget. The tax increment could also come from normal economic growth in the area.

**Construction Gains.** It is often claimed that part of the economic impact will flow from the actual construction of the stadium or arena. Residents can see the hundreds of workers on a construction site, so this claim often seems valid. The catch is that the funds used to pay these workers is coming from city or state debt, which has to be paid back and creates a drag on the local economy going forward. Unless the new facility generates net fiscal revenue to help meet the debt service obligations, any gain will be short term and must be assessed in relation to the economic and labor market condition prevailing in the city.

If construction projects by themselves, independent of the economic impact of what is built, were growth and employment engines, then no city need ever suffer unemployment. City council members could simply borrow money to hire hundreds of workers to dig a big hole and then borrow more to hire other workers to fill it up.

## AMELIORATING FACTORS

The foregoing is the bad news. The good news is that the tendencies described above can be mitigated or even overcome if the facility deal is effectively planned and negotiated.

The financing and lease terms of the facility can affect its economic impact. Obviously, the more private the financing, the more arena revenue is shared with the city, the less responsibility the city has for operations, maintenance and capital improvements, and the fewer the tax breaks conferred, the more likely it is that the stadium or arena will have a constructive effect on the local economy.

It is often maintained that professional sports facilities are iconic and, as such, attract investment in nearby real estate. Some stadium and arena deals come with an explicit commitment from the team owner or other private investors to provide the capital for this collateral development. When the commitment is not explicit, it is not likely to occur. Football stadiums are used 10 to 20 days a year, and baseball stadiums for major league teams, 80 to 100 days. When these facilities are not in use, there are 10 to 15 acres that are dark at night. Locating a business adjacent to a moribund large lot is problematic. Even basketball or hockey arenas, while they may be in use for more than 200 days

a year, may not be ideal for area businesses. All sports facilities tend to be designed to lure fans to spend their money inside their walls. The traffic associated with live events may chase potential customers away.

If a sports facility is to be a magnet for investment in residential, retail, commercial, or themed structures, then it is best to a) plan this use in conjunction with the city's land availability and business patterns and b) extract firm commitments from the prospective investors. There are examples where this strategy appears to be working well — Atlantic Yards in Brooklyn, Petco Park in San Diego, Camden Yards in Baltimore, or Ballpark Village in St. Louis. The instances where arenas or stadiums have been plunked in the middle of downtown without ancillary investment have not succeeded in attracting new investment.

## SPORTS FACILITIES AS MACROECONOMIC STIMULUS PACKAGES

With proper timing, the use of public funds to build stadiums or arenas can play a valuable economic role. Issuing a long-term bond requires annual debt service payments for some 25 or 30 years. That is, repayment of the borrowed money occurs gradually over time. The spending of the borrowed sum, in contrast, occurs over a relatively short two- or three-year period.

If the local economy is weak and the labor market slack, the jolt of construction spending can have a salutary effect. Its analog is deficit spending (or Keynesian pump priming) at the federal level. Just as with federal deficit spending, however, it comes with an increase of the debt level, so policymakers must weigh the increased tax revenue that comes with a stronger local economy against the additional payments that will be made over time.

If the local economy is strong and the labor market tight, then the added spending with stadium construction might have a deleterious effect. Construction costs may escalate, engendering inflationary pressures on the local economy, and the additional construction workers may have to be imported from outside the city's labor force.

Part of the problem when viewing stadium construction from a fiscal stimulus perspective is that the demands on a city to subsidize a new sports facility do not tend to be timed with the city's cyclical economic needs. Rather, they are timed with the needs of the owner of the sports team and the dynamic of league competition.

## CONCLUSIONS

This article is meant to emphasize the complexity of the factors that must be evaluated in assessing the economic impact of sports facility construction. While prudent planning and negotiating can improve the chances of minimizing any negative impacts or even of promoting a modest positive impact, the basic experience suggests that a city should not expect that a new arena or stadium by itself will provide a boost to the local economy.

Instead, the city should think of the non-pecuniary benefits involved with a new facility, whether they entail bringing a professional team to town, keeping one from leaving, improving the conveniences and amenities at the facility, or providing an existing team with greater resources for competition. Sports are central to cultural life in the United States (and in much of the world). They represent one of the most cogent ways for residents to feel part of and enjoy belonging to a community. The rest of our lives are increasingly isolated by modern technological gadgetry. Sport teams help provide identity to a community, and it is this psychosocial benefit that should be weighed against the sizeable public investments that sports team owners demand.

**Notes**

1. Some of the seminal works in this area include: Rob Baade, "Professional Sports as Catalysts for Metropolitan Economic Development," *Journal of Urban Affairs*, vol. 18, pp. 1-17; Dennis Coates and Brad Humphreys, "The Growth Effects of Sport Franchise, Stadia and Arenas," *Journal of Policy Analysis and Management*, vol. 18, pp. 601-624; and, John Siegfried and Andrew Zimbalist, "The Economics of Sports Facilities and Their Communities," *Journal of Economic Perspectives*, vol. 14, pp. 95-114.
2. John Siegfried and Andrew Zimbalist, "A Note on the Local Impact of Sports Expenditures," *The Journal of Sports Economics*, vol. 3, no. 4 (December 2002).
3. Quantifying the public share in facility construction is complex for a number of reasons, including whether or not the estimate includes land, infrastructure, environmental remediation, maintenance, property and fiscal subsidies, and so on. The most careful, comprehensive, and current source of stadium and arena financing is Judith Grant Long, "Full Count: The Real Cost of Public Funding for Major League Sports Facilities and Why Some Cities Pay More to Play," Ph.D. dissertation, Harvard University, Department of Urban Planning, April 2002, especially chapter four.

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