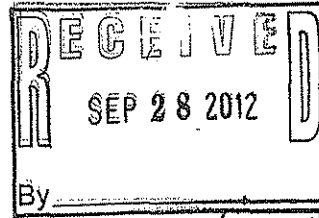


September 28, 2012



Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
200 North Spring Street
Los Angeles, California 90012

Council File: 11-0023 e
"Downtown Stadium and Event Center"

Dear Mr. Mayor:

I have spent over 300 hours researching and analyzing the proposed deal between the City and AEG regarding the downtown stadium and event center. ~~The information in this document is a summary of my research/analysis and supplements the information in my prior letters of 7/28/11, 8/3/11 and 8/9/11 (available in the Council File).~~

You must reject the proposed deal for a number of compelling reasons.

Farmers Field will not be an engine of economic growth, nor will it generate badly needed additional tax revenues to the City's General Fund:

- Farmers Field will only create approximately 70-130 full-time jobs and between 1,000-1,500 part-time day-of-game jobs, not the 20,000-30,000 jobs claimed by AEG.
- Farmers Field will create an economic loss of \$58 million annually to the Los Angeles economy.
- Mega-events such as Super Bowls, Final Fours, etc., do not produce an economic gain for the host cities – in most cases they actually produce an economic loss.
- There will be no new "bed tax" revenues from any new downtown hotels because the City Council has recently awarded \$700 million in subsidies to the developers of these hotels and will be compelled to continue to do so.

AEG can and should pay much more for the use of our valuable public property – we are not being properly compensated:

- The true revenue to AEG will be \$2.6 billion greater than those reported by the City's consultants over the next 30 years.
- The true IRR to AEG will be approximately 22%, not the 6.7% per the City's consultants.

Continued on next page

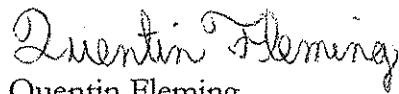
The deal, as structured, represents taxpayer funds being used to build facilities for the benefit of a private business:

- Contrary to popular belief, Los Angeles taxpayers – not AEG – have fully paid the cost to build Staples Center through hidden subsidies and other incentives granted by the City Council. Farmers Field will be a repeat through the deal as currently structured.
- The City is relying on a flawed economic forecast designed to help AEG advocate for economic concessions, preventing the taxpayers from being properly compensated for the use of public property by a private business.

Finally, AEG is in the process of being sold. We do not know the identity of the eventual buyer or what their intentions will be. It is irresponsible to proceed with this deal.

Enclosed are attachments that support the assertions I am making in this letter.

Submitted in the spirit of a better Los Angeles,



Quentin Fleming
Pacific Palisades

Attachments:

- 1) The truth about the current Farmers Field proposal (41 pages/82 slides)
- 2) Research in Sports Economics (8 pages)

Distribution:

Hon. Antonio R. Villaraigosa
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Hon. Jose Huizar
Hon. Joe Buscaino
Ms. Wendy Greuel
Mr. Gerry F. Miller
Mr. Miguel A. Santana

The truth about the current Farmers Field proposal

Presented to
the Los Angeles City Council,
Mayor, CAO, CLO and Controller
September 28, 2012

Quentin Fleming
(310) 459-9570
qfleming@aol.com

Overview

Introduction

Financial Projections: flaws with the City's consultants report

Staples Center as a model for Farmers Field

What happens when an NFL franchise arrives

The true economic impact of mega-events

"Viability" of Los Angeles conventions

AEG's claims vs. a reality check

Conclusion

Introduction

Let me start by saying I am not anti-NFL football in Los Angeles



Gabriel



Snow



Jones



Olsen



Pardee

I have happy memories of watching these guys play at the Coliseum and scrimmage at Chapman College.

Throughout this process, I have been guided by
three strong beliefs

Everyone is entitled to his own opinion, but not to his own facts.

No number without a context to enable independent verification.

Facts, including their source and methodology,
must be independently verifiable.

Key takeaway

AEG and supporters of Farmers Field have
continually asserted “facts” and numbers
that cannot be independently verified –
and should not be trusted.

Financial Projections: flaws with the City's consultants report

Differing viewpoints on sports economics come
from differing approaches:
ex ante vs. *ex post*

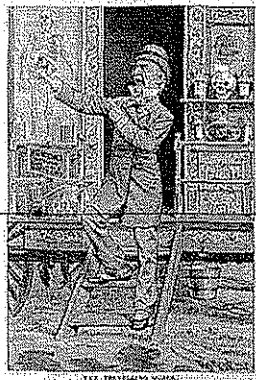
"ante" = ahead of time

- Projections of the future
- Values "plugged in" to formulas
- Optimistic assumptions
- Used by sponsors / boosters / promoters / developers

"post" = after the fact

- Rigorous, after the fact analysis of what actually happened
- Scientifically validated methodology
- Often peer reviewed
- Used by researchers

What's the real difference – *ex ante* vs. *ex post*?



Snake oil salesman's claims
before you buy the product



Physicians determining exactly
how/why it killed you

Key takeaway

Farmers Field supporters rely solely on
“ahead of time” claims that will be completely
disproven once the stadium is built.

It's a good thing that the City hired their own
consultants to protect its financial interests...
Right?



INDUSTRY ADVISORS
WITH UNMATCHED
EXPERIENCE

Let's take a closer look

Flaws with the City's Consultant's Economic Forecast (with friends like this ...)

Specifically told by the City **not** to look for costs – only for
“revenues”

Relies on financial inputs and data supplied by AEG

Methodology used has been contradicted by scientifically-
valid research

Omits AEG's profits to LA Live, the J.W. Marriott and Ritz
Carlton hotels

Implication: Does an excellent job of allowing AEG
to come back and say “we can't afford to do mitigations ...
it will kill the deal.”

Key takeaway

The City is relying on an economic forecast purposely designed to help AEG advocate for economic concessions.

Other errors in CSL methodology

- Front-loads all construction cost in 1st year (i.e., "Year 0")
- A \$1 billion stadium suddenly becomes \$1.2 billion
- Omits revenues from NFL team playing while Farmers Field is built
- Omits Farmers Field naming rights (i.e., \$700 million)
- Assumes only one, not two, NFL teams
- Fails to account for "true cost" of past stadiums

The City's consultants analysis fails to account for the "full cost" cities incurred from past stadiums

Stadium/Team	Team	Public Funding: % of Total (per CSL)	Correct % of Total Public Funding
Heinz Field	Pittsburgh Steelers	61%	116.1%
Invesco Field at Mile High	Denver Broncos	72%	90.7%
Paul Brown Stadium	Cincinnati Bengals	94%	121.9%
LP Field	Tennessee Titans	71%	104.3%
Cleveland Browns Stadium	Cleveland Browns	74%	99.7%
M&T Bank Stadium	Baltimore Ravens	90%	112.3%
Raymond James Stadium	Tampa Bay Buccaneers	100%	126.5%
Bank of American Stadium	Carolina Panthers	23%	62.3%
Edward Jones Dome	St. Louis Rams	96%	117.2%
EverBank Field	Jacksonville Jaguars	86%	124.6%
Georgia Dome	Atlanta Falcons	77%	121.1%
FedEx Field	Washington Redskins	28%	37.3%

Sources: CSL report, page 12. Judith Grant Long. "A History of Public Funding for Major League Sports Facilities, 1890 to 2001." 2004: Center for Urban Policy Research Working Paper Series, E.J. Bloustein School of Planning and Public Policy, Rutgers University.

Key takeaway

CSL's failure to fully account for public funding of past stadiums is happening in their Farmers Field projections – the true cost to the City's General Fund is underestimated.

What do the City's consultants determine the financial return to AEG to be?

IRR	NPV
6.7%	< \$73,418,276 >

"This IRR is significantly below the traditional IRR sought by AEG and other developers of 15-20%. This low IRR indicates that it is not possible to allocate any additional Event Center revenue to the City."

Memo from Messrs. Miller, Santana, Abbassi to Ad Hoc Stadium Committee. 7/25/11.

How do you get a negative NPV?

I have calculated a series of financial scenarios based on data within the MOU, corrected for likely errors

"True" IRR	"True" NPV
10.81% – 24.03%	\$308 – \$987 Million

My methodology, assumptions and calculations have been delivered to the City Council in letters dated 7/28/11, 8/3/11 and 8/9/11 and can be independently audited/examined.

Key takeaway

The true profits and economic benefits to AEG are much greater than those presented by the City's own consultants. The City can, and should, demand far greater compensation for the use of public property by a private party.

AEG has publicly stated that they are happy to accept a 6.7% IRR on this project – let's take them at their word

<u>Source</u>	<u>IRR</u>	<u>NPV</u>
City's consultants	6.7%	< \$73,418,276 >
My most probable scenario (per my 8/9/11 letter)	22.88%	\$911,869,930

Implication: The difference between the City's estimate and the most probable scenario equals **\$2,655,180,784** in unaccounted for cash flows over the next 30 years.

Key takeaways

- 1) The true revenue to AEG will be over **\$2.6 billion** greater than those reported by the City's own consultants (over the next 30 years).
- 2) The City and citizens of Los Angeles are not being properly compensated for the use of public property for a private company's benefit.

What is the true profit to AEG?

My 8/3/11 and 8/9/11 letters to the City Council asked for specific responses to the calculations, assumptions and methodology in these letters:

- where am I wrong?
- why am I wrong?
- by how much am I wrong?

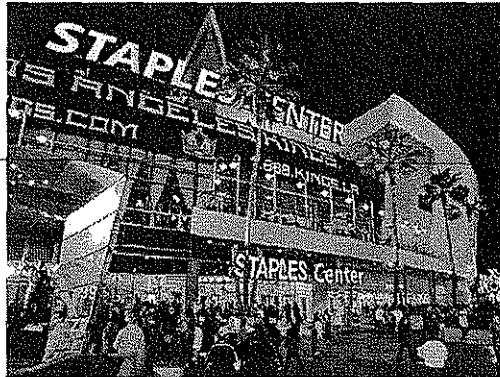
There has been no response to these letters.

Key takeaway

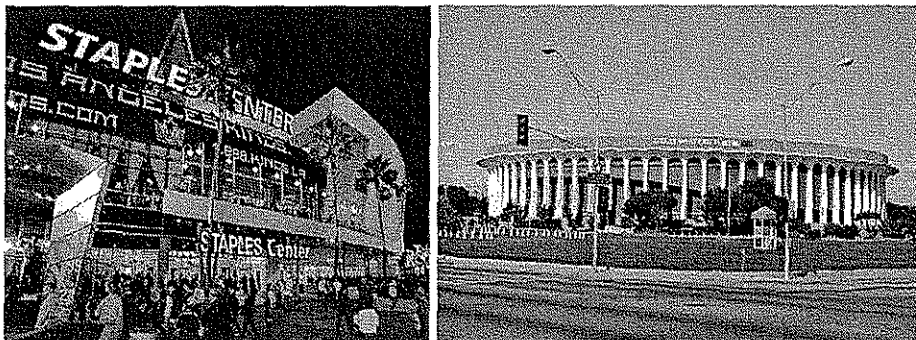
An independent audit and response to my prior letters will reveal the true and significant unreported profits to AEG.

Staples Center as a model
for Farmers Field

Staples Center Created Lots of New Economic Activity...
Right?



Staples Center Created Lots of New Economic Activity...
Right?



Let's ask the people of Inglewood

Key takeaway

Staples Center merely “shifted” economic activity – it did not create new economic activity.

Staples Center Was 100% Privately Funded
and Cost LA Taxpayers Nothing...
Right?



Staples Center cost \$400 million to build

Here's how the Staples Center deal was originally structured

(\$ in millions)

Cost to Build		\$400 m
Less: Public Development Cost (value of land)	\$70.6	
Less: Annual Public Expenses (municipal services)	\$23.9	
Less: Foregone Property Taxes (underpaid/foregone tax revenues)	\$94.5	
<hr/>		
Add: 1-time 55 year ground lease payment		\$3.2
	Hidden subsidies to AEG	\$189
"True" Cost of Staples Center to AEG		\$214.2 m

Taxpayers paid 46.5% of the cost

Source: Judith Grant Long. "A History of Public Funding for Major League Sports Facilities, 1890 to 2001." 2004. 1999 constant dollar values.

Since then, there have been additional subsidies
(to do what AEG was going to do from the start)

What Staples Center cost AEG – after 1st round of subsidies		\$214.2 m
Less: Bed-tax rebate for J.W. Marriott and Ritz Carlton Hotels	\$270.0	
Less: Publicly funded upgrade of streets/sidewalks surrounding LA Live (taken from Housing and Emergency Trust Fund of 2006)	\$23.9	
	Additional hidden subsidies to AEG	\$293.9
"True" Cost of Staples Center to AEG		< \$??? >

Sources: LA Times, 5/4/11. KCET 5/6/11. Footballphds.com, 7/12/11.

Key takeaways

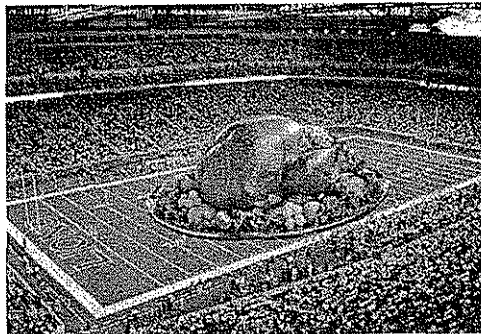
- 1) Los Angeles taxpayers have fully paid AEG to build Staples Center.
- 2) We must assume that the same will happen with Farmers Field.

One final point about Staples Center

Let's not talk about the 107 parcels of land around Staples Center that the City bought at distressed prices in the late 1990s and transferred to AEG ... and that AEG has sold off many of these at a profit.

What happens when an NFL franchise arrives

An NFL Team Coming to Town is Going to
Really Improve Our Economy...
Right?



How to determine the economic impact
when a sports franchise arrives

(in 12 steps)

- 1) Calculate professional sports franchise multiplier.
 - 2) Calculate locally-owned entertainment / leisure / recreation multiplier.
-
- 3) Determine gross (or total) economic activity from franchise.
 - 4) Determine net new economic activity (i.e., \$ coming into town).

Page 1 of 3

How to determine the economic impact
when a sports franchise arrives

(cont'd.)

- 5) Divide Step 4 in half (one-half of step 4 will "leak" out of town).
- 6) Multiply Step 5 by the professional sports franchise multiplier (this is true net impact of new out of town dollars that stay in town).
- 7) Add Steps 5 and 6 together = true impact of "out of town" \$.
- 8) Subtract net new economic activity (step 4) from gross economic activity (step 3) = this is what gets applied to the multipliers.

Page 2 of 3

Determining the economic impact
when a sports franchise arrives
(cont'd.)

- 9) Take the amount from Step 8 above and multiply by professional sports franchise multiplier (step 1).
 - 10) Take the amount from Step 8 above and multiply by locally-owned entertainment/leisure/recreation multiplier (step 2).
-
- 11) Add Steps 7 and 9 together = true impact of new franchise.
 - 12) Subtract Step 10 (would have happened) from Step 11 (will happen) = this is the true net economic impact, positive or negative, from the new sports franchise

Step 12 is the number that matters

Page 3 of 3

Scientifically valid economic multipliers must be applied
to assess the true economic impact of Farmers Field

$$\text{Multiplier} = 1 / [1 - \text{MPC} (1 - \text{MPI}) (1 - t)]$$

MPC = marginal propensity to consume

MPI = marginal propensity to import goods into the local economy
(i.e., cash flowing out-of-town)

t = marginal tax rate

Must be calculated separately for:

- professional sports franchise
- locally-owned entertainment/leisure/recreation

Source: Siegfried and Zimbalist. "The Economics of Sports Facilities and Their Communities."
Journal of Economic Perspectives. Vol. 14, No. 3, Summer 2000, pp. 95-114.

What multipliers should we use for
Los Angeles and Farmers Field?

Professional sports franchise:

$$1 / [1 - .67 (1 - .5) (1 - .45)] = \mathbf{1.20}$$

Locally-owned entertainment/leisure/recreation:

$$1 / [1 - .8 (1 - .35) (1 - .35)] = \mathbf{1.51}$$

Key takeaway

Every dollar of activity at Farmers Field creates
only **20¢** of additional economic activity;

whereas

Every dollar spent at locally-owned entertainment/
leisure/recreation businesses creates an additional
51¢ of economic activity.

Let's calculate the net economic impact
of Farmers Field using scientifically valid methodology

The following three pages will present the calculations
for determining the economic impact of Farmers Field

using the twelve step methodology and the economic
multipliers that were previously identified.

Let's calculate the net economic impact
of Farmers Field using scientifically valid methodology
\$ in millions

- 1) Professional sports franchise multiplier: 1.20
- 2) Locally-owned entertainment/leisure/recreation multiplier:
1.51
- 3) Gross economic activity: \$615
- 4) Net new economic activity (15% of total): \$92.25

Let's calculate the net economic impact
of Farmers Field using scientifically valid methodology
\$ in millions
(cont'd.)

- 5) Dollars "leaking" out-of-town: \$46.1
-
- ~~6) Multiplier impact of new out-of-town \$: $(\$46.1 \times 1.20)$: \$55.35~~
- 7) Total impact of new out-of-town \$ $(\$46.1 + \$55.35)$: \$104.45
- 8) Economic activity amount to apply to multipliers $(\$615 - \$92.25)$:
\$522.75

Page 2 of 3

Let's calculate the net economic impact
of Farmers Field using scientifically valid methodology
\$ in millions
(cont'd.)

- 9) Impact of \$ shifted to franchise $(\$522.75 \times 1.20)$: \$627.3
- 10) Value of \$ that will be spent locally if Farmers Field is not
built $(\$522.75 \times 1.51)$: **\$789.4**
- 11) True "output" of franchise $(\$104.45 + \$627.3)$: **\$731.75**
- 12) Annual net economic impact: $\$731.75 - \$789.4 = <\$57.65>$

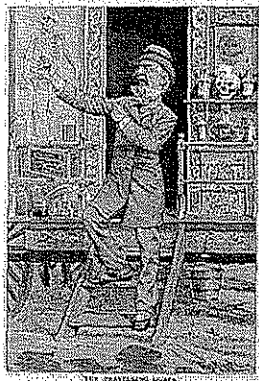
Page 3 of 3

Key takeaway

The arrival of the NFL to downtown will create a \$58 million annual loss to the Los Angeles economy.

Who are you going to believe?

+ \$615 million annually



Snake oil salesman's claims before you buy the product

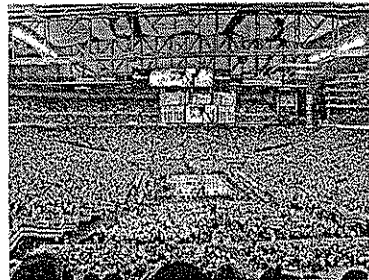
< \$57.65 million > annually



Physicians determining exactly how/why it killed you

The true economic impact of mega-events

Mega Events – Super Bowls, Final Fours, etc. – Will Create
an Economic Windfall for the City...
Right?



What you think you see is not what's happening

Classic “errors” with Mega-Event promotional claims
(and we’re hearing them again here)

Don’t reveal how/why/where numbers come from, making them impossible to verify (this is intentional)

Economic multipliers that are flawed/invalid/disproven

Fail to account for, and subtract, scientifically-validated “effects”

Focus only on “gross” spending:

- ticket sales
- media revenues
- # of room nights x \$ rate
- 3 meals/day x \$ rate
- additional “per diem” allowance

Note: the same effects apply to regular season sports events

Key takeaways

- 1) Scientifically valid studies have consistently disproven “ex ante” promotional claims.
- 2) Mega events produce no economic benefit.

Gross economic activity from Mega Events must be adjusted by four scientifically-validated “effects”

Gross (or total) economic activity	\$ xxx
Less: Substitution effect	< \$ x >
Less: Crowding-out effect	< \$ x >
<hr/>	
Less: Leakage effect	< \$ x >
Less: Direct costs paid for by City	< \$ x >
True Economic Impact	<u>\$???</u>

Let’s examine these “effects” one-by-one over the next pages.

#1: Substitution effect
 (Money spent at Farmers Field is money that would have been spent elsewhere locally)

Zero-sum spending for recreation and leisure

L.A. area is huge – local population sufficient to fill stadium:

- 12,828,837 people in our local MSA
- LA not as reliant on out-of-town people as other venues

“Switching” travel plans – people who are already coming to L.A. time their trip to coincide with the event.



Source: 2010 US Census, www.census.gov

#2: Crowding-out effect
(Mega events depress economic activity
that would have otherwise happened)

Activity that would have happened does not:

- not a zero-sum reshuffle – the money is not spent
- ~~actually suppresses economic activity (i.e., people stay home or leave town)~~

Loss of time / productivity to bystanders
creates an economic loss that can
be substantial



#3: Leakage effect
(Gross expenditures flow straight out of the Los Angeles economy)

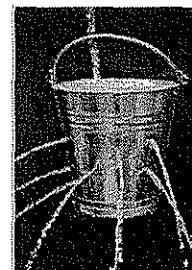
Revenues are re-distributed / shared (NFL, NCAA, FIFA, etc.)

Player costs:

- the majority of players live out-of-town (spend there)
- players save/invest; do not spend most of their earnings

Incoming cash flows for businesses flow out:

- “gross” new dollars come in
- there are minimal staffing changes or additional costs to service mega-events – the “gross” new dollars are pure profit
- profits flow to out-of-town corporate owners (e.g., Phil Anschutz in Denver) and are not spent in Los Angeles.



#4: Direct costs paid for by the City
(These are a straight dollar-for-dollar hit on the General Fund)

Among the burdens host cities incur:

- Security
- Police
- Traffic control
- Sanitation
- Host Activities / Celebrations / Ceremonies
- Promotional Activities
- Infrastructure wear and tear

Key takeaway

Research has demonstrated that the true economic impact is in most cases negative, and at best “de minimis.”

Why worry about direct costs from the General Fund?

Every \$1 million expense to the General Fund requires
\$133 million in new taxable sales to break-even

8.75% sales tax = 0.75% to City of LA

-or-

\$1 taxable sale = 3/4¢ to City of LA

\$1 million General Fund expense
0.75 ¢ = \$133,333,333 new taxable sales

\$133,333,333
3,792,621 people = **Every man, woman & child in the
City of LA must go out and spend \$35.16
in new taxable sales to replenish
a \$1 million General Fund expense.**

Population source: 2010 US Census, www.census.gov

Key takeaway

Every dollar coming out of the General Fund
to support Farmers Field can not – will not – be
replenished.

“Viability” of Los Angeles conventions

But We’re Going to Get an Improved Convention
Center That Will Solve All Our Problems...
Right?



We need to ask some painful questions

L.A. is a wonderful tourist destination
(but tourism and conventions are different animals)

Is L.A. an effective convention location?

- expensive compared to other cities
 - “remote” – located at one corner of the country
 - “there’s nothing there there” near the Convention Center
(except LA LIVE, which is nothing unique)
-

To “lure” new conventions from other cities will require
concessions – which kills the economics (aka, profitability)

L.A. is geographically disbursed – you must fight rush hour
traffic after meetings to sightsee and enjoy what the city
has to offer.

Key takeaway

Los Angeles is a tourist city,
not a convention city.

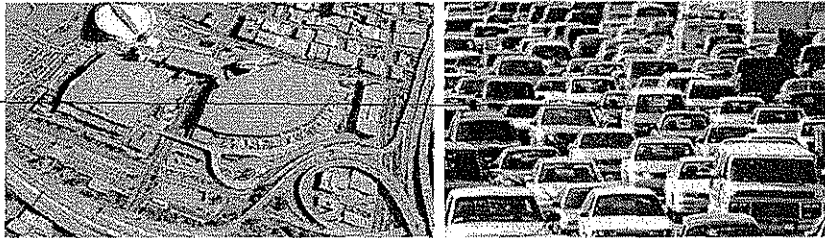
AEG's claims vs. a reality check

Throughout this process AEG has made lots of claims,
and we can rely on them...
Right?



Let's examine some

AEG claim:
"There won't be any traffic impacts.
We will fully mitigate everything."



But the foundation has already been laid for AEG to say
"we can't afford to mitigate anything, it will kill the deal"

Key takeaway

The EIR concludes there will be significant and
unmitigable traffic impacts.

AEG will not mitigate this problem.

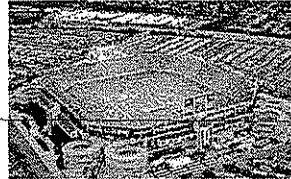
AEG claim:

“We’re experts in getting traffic in and out of downtown.
We get 100K people in and out of the Convention Center
each weekend during the L.A. Car Show.”



LA Auto Show
Hours: 9AM – 10PM

=
100 K people during 13 hours



NFL Football
Fixed start/end time

=
75 K people all at once

Ever heard of something called a “kick-off?”

Source: Tim Leiweke at Pacific Palisades Community Council, 6/9/2011.

Key takeaway

The nature of Farmers Field events – everyone
coming/going at once – create traffic gridlock.

AEG claim:

"I hear people say that there's no economic benefit, but then I look at the \$100 million that we're paying in taxes annually and believe we have, in fact, made a huge economic commitment and a change to the way our community operates."

But no one has asked the critical follow-up questions to this statement:

- **Exactly what amounts were paid to which government entities?**
- **What are the specific taxes being paid?**
- **Do any of these go to the General Fund?**

Source: Tim Leiweke, comments to Select Committee on Sports and Entertainment. latimes.com, 8/26/11.

Key takeaway

AEG asserts that they are already paying substantial tax revenues to the City of Los Angeles, but fails to provide detail for this claim to be verified.

AEG claim:

“... this organization has given back almost \$80 million in charity and through our foundations, back to this community.”

Again, no one has asked the critical follow-up questions to this statement:

-
- ~~Who/what are these AEG foundations and what exactly to these do?~~
 - Where exactly are all of these foundations / charities located?
 - When and how much was given to the charities and foundations?

Source: Tim Leiweke, comments to Select Committee on Sports and Entertainment. latimes.com, 8/26/11.

Key takeaway

AEG claims to provide significant public benefit, but asserting “numbers without context” make verification impossible.

AEG claim:

The stadium will generate 11,000 new full-time jobs

Economics suggests stadiums generate 70 – 130 front office personnel, plus 1,000 – 1,500 part time day-of-game employees.

Can we have a breakdown of these jobs:

-
- What exactly are the jobs (category and number, etc.)?
 - Where exactly will these jobs be?
 - Who's the employer?
 - What are the salaries / wages?

Key takeaway

Since stadiums only create 70-130 full-time employees and 1,000-1,500 part time workers on game days, AEG must be claiming credit for things not in the stadium, which AEG has no control over and might or might not happen.

AEG claim:

The stadium will cause several new hotels to be built, generating significant new tax revenues for the City

But the City Council has recently given away \$707.3 million in “bed tax” subsidies:

JW Marriott and Ritz Carlton (to AEG)	\$270 m
Wilshire Grand	\$250 m
Mandarin Oriental	\$120 m
Marriott (on Olympic Blvd.)	\$67.3 m
Total “bed tax” subsidies	\$707.3 m

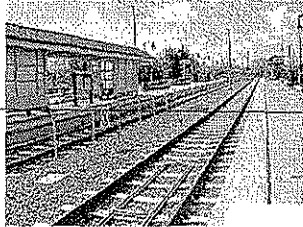
If a hotel can't be built without a subsidy, why is it being built?

Sources: KCET, 5/6/11. L.A. Times, 5/4/11 and 6/14/12.

Key takeaway

The City will not receive “bed tax” revenues from any new hotels for the foreseeable future. The large subsidies given to AEG and others have set the precedent for all other future downtown hotels.

AEG's transportation consultants assert that 11,000 – 15,000 stadium attendees will arrive by light rail transit



How can you ride Light Rail to the stadium when there's no parking at the Light Rail station?

Source: The Mobility Group. Report to Ad Hoc Stadium Committee. 9/26/11

Key takeaway

The use of public transportation, especially light rail, is not practicable and will not occur.

Conclusion

Why have I spent over 300 hours analyzing
and researching this?

Because the Past is Prologue...



"Forget it Jake. It's Chinatown."

... and let me conclude by returning to where I started ...

Let me conclude by saying I am not
anti-NFL football in Los Angeles



Gabriel



Snow



Jones



Olsen



Pardee

The decision to build a stadium downtown – whether
“yes” or no” – must be based on facts; not
misinformation, ignorance, urban myths, or lies.

Conclusion

Approving the proposed deal with AEG
is making a decision relying upon misinformation,
ignorance, urban myths and lies.

You must not approve it.

Research in Sports Economics

Presented below are only a few of the numerous economic studies performed using scientifically-valid research methodology. I have presented citations and extracts of the abstract, introduction or conclusions sections (as appropriate).

I have come across two remarkable findings. The first is that there is overwhelming unanimity in the findings – something very rare. The second is that researchers attack the question from different perspectives and approaches and still achieve this unanimity.

John Siegfried and Andrew Zimbalist

(*"The Economics of Sports Facilities and Their Communities."* Journal of Economic Perspectives. Vol. 14, No. 3, Summer 2000, pp. 95-114.)

THE ECONOMIC IMPACT OF SPORTS FACILITIES ON METROPOLITAN AREAS

Few fields of empirical economic research offer virtual unanimity of findings. Yet, independent work on the economic impact of stadiums and arenas has uniformly found that there is no statistically significant positive correlation between sports facility construction and economic development (Baade and Dye, 1990; Baim, 1992; Rosentraub, 1994; Baade, 1996; Noll and Zimbalist, 1997; Waldon, 1997; Coates and Humphreys, 1999).

These results stand in distinct contrast to the promotional studies that are typically done by consulting firms under the hire of teams or local chambers of commerce supporting facility development. Typically, such promotional studies project future impact and almost inevitably adopt unrealistic assumptions regarding local value added, new spending, and associated multipliers. They often use a regional input-output model that depends on outdated technical coefficients which are treated as invariant to shifts in supply and demand (Center for Economic and Management Research, 1991; Deloitte & Touche, 1994, 1996; KPMG, 1996; Economic Research Associates, 1996; KPMG, 1998; C.H. Johnson Consulting, 1999).

The academic work on the economic impact of sports facilities and teams does not rely upon projection. Rather, it compares the local economic performance of areas with and without stadiums, arenas, and teams, controlling for other variables that affect local economic conditions. Among cross-section studies, for example, Baade (1994) found no significant difference in personal income growth from 1958 to 1987 between 36 metropolitan areas that hosted a team in one of the four premier professional sports leagues and 12 otherwise comparable areas that did not. Looking at 46 cities over the 1990–94 period, Waldon (1997) found that higher high school graduation rates and more spending on police are what encouraged economic growth, while the presence of a major league sports team actually put a drag on the local economy. Both Baade and Waldon controlled for other factors affecting underlying trends in economic growth.

Time series studies confirm the cross-section results. Baade and Sanderson (1997), for example, found no

perceptible net increase in economic activity or employment in 10 cities that acquired new sports teams between 1958 and 1993 after factoring out other economic trends affecting each area. They did observe a reordering of leisure expenditures within the cities that acquired new teams, but there was no evidence that the new sports teams brought output or employment growth to the local area. A more recent study, by Coates and Humphreys (1999), finds that new stadiums and sports teams actually reduce per capita income in the host communities. This result is consistent with a higher (negative) multiplier for the displaced leisure expenditures than for the expenditures on a new team or in a new stadium because the latter likely involve substantial leakages from the local economy to the remote residential locations of some players and team owners.

The conclusion that sports teams and facilities do not stimulate economic growth is surprising to many people. With live telecasting of games, daily coverage on television news and in the sports sections of newspapers, professional sports play a huge role in U.S. culture. Yet sports teams are small businesses. Yearly average team revenues in 1999 are around \$55 million in the NHL, \$75 million in the NBA, \$85 million in MLB and \$100 million in the NFL. For a medium-size city like St. Louis, the baseball team accounts for less than 0.3 percent of local economic activity, for a large city like New York, a baseball team contributes less than 0.03 percent of economic output.

Sports teams typically employ between 70 and 130 people in their front offices. Beyond this, they hire approximately 1,000 – 1,500 day-of-game personnel who work in unskilled, low wage, temporary, part-time jobs. An NFL team is assured of playing 10 home games a year (including preseason games). At four hours of work per game, an NFL team provides day-of-game employment for the equivalent of 20 to 30 full-time, year-round jobs. As we shall see, however, it is problematic to attribute even these jobs to the sports team.

Judith Grant Long

(*Full Count: The Real Cost of Public Funding for Major League Sports Facilities*” Journal of Sports Economics, Vol. 6, No. 2, May 2005, pp 119-125.)

ABSTRACT

Governments pay far more to participate in the development of major league sports facilities than is commonly understood due to the routine omission of public subsidies for land and infrastructure, and the ongoing costs of operations, capital improvements, municipal services, and foregone property taxes. Adjusting for these omissions increases the average public

subsidy by \$50 million per facility to a total of \$77 million, representing a 40% increase over the industry-reported average of \$126 million, based on all 99 facilities in use for the “big four” major leagues during 2007. For all 99 facilities, these uncounted public costs total \$5 billion.

FINDINGS AND DISCUSSION

Land and infrastructure costs are unreported in 46 of 99 cases. These costs began to disappear from facility cost reports during the 1980s and 1990s when it became fashionable to site new sports facilities in urban locations. Land cost data are tricky because of the complexity of appraising these sites, and because both team owners and some government officials have an interest in suppressing public knowledge of the market value of the site should it be sold privately. For these reasons, the tendency of subsidy advocates to obscure these costs is likely to continue.

Annual public costs paid each year toward the operation of a facility are also uncounted in most cases. It is a myth that sports facilities’ operating revenues repay construction debt. In reality, operating revenues are almost completely offset by significant ongoing public expenses that are obscured in complex lease agreements.

Sports facilities rarely yield property taxes for their municipal hosts, and these foregone revenues represent a significant and uncounted public cost. A facility need not be publicly owned to avoid paying property taxes: Eighty-five cases receive property tax exemptions, whereas only 67 are publicly owned.

Overall, the findings refute the much-touted claim that during the 1990s, team owners and other private entities were “partners” in sharing the burden of facility financing with taxpayers. Instead, the analysis

shows that upfront private contributions are often substantially recouped through lease-based subsidies and exemptions from property taxes. Although industry sources estimate that the average public share of costs for a new sports facility is 56% my findings show that after adjusting for omitted subsidies the average public share is 79% — an increase of 23 percentage points. Thus, characterizing recent deals as public-private partnerships is inaccurate, in as much as it implies near-equal responsibility between both sectors, and taxpayers continue to bear the majority of costs for constructing and operating new major league sports facilities.

If governments and taxpayers understood the real cost of public subsidies for major league sports facilities, they could make better investment decisions. This analysis demonstrates that it is possible to reliably estimate the total public cost of a new stadium, ballpark, or arena, including both development and ongoing costs for the life of the facility, in advance of subsidy negotiations. Subsidy advocates – including team owners, players’ unions, trade unions, local media, businesses, and real estate developers – have an interest in underreporting the cost of a new facility to ensure favorable and rapid public approval. Politicians and other public officials aligned with the interests of subsidy advocates can be complicit in keeping the real public cost out of the debate.

Roger G. Noll and Andrew Zimbalist

(*Sports, Jobs, & Taxes: Are New Stadiums Worth the Cost?*” Brookings Institution Press. Book: 1997, 525 pp.)

SUMMARY

The economic rationale for cities’ willingness to subsidize sports facilities was revealed in the campaign slogan for a new stadium for the San Francisco 49ers: “Build the Stadium – Create the Jobs!” Proponents claimed 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.

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 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. On balance, these factors are largely offsetting, leaving little or no net local export gain to a community.

Promotional studies used to support professional sports assert significant positive local annual economic impacts. 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 business 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.

James Cochran and Kaveephong Lertwachara

(*“An Event Study of the Economic Impact of Professional Sport Franchises on Local U.S. Economies.”*
Journal of Sports Economics. Vol. 8, No. 3, June 2007, pp. 244-254.)

ABSTRACT

It is common for a city to use expensive incentives such as a state-of-the-art stadium or tax exemptions to induce a major professional sport team to relocate to or remain in its area. A city does so because it expects a professional sport team to enhance the local economy. In this article, the authors use an event study approach to

evaluate the advisability of this strategy. Their results suggest that major league sports franchises from the four major U.S. team sports (baseball, football, basketball, and hockey) have an adverse impact on local per capita income for U.S. markets in both the short and long run.

CONCLUSIONS

Municipalities compete fiercely for professional sports franchises, offering concessions and incentives in the hundreds of millions of dollars to entice an existing franchise to relocate or convince a league to award them an expansion franchise. This competition continues despite strong economic evidence that a professional sport team does not have a positive impact on the local economy. However, the research that has produced this evidence fails to consider some important factors: inflation, causality, overall economy, specific characteristics of local areas, and events' ages. Our article takes inflation into account and employs the model of the event study to mitigate these concerns.

The results of our research confirm prior research findings – we find that a professional sport team does

not have a positive economic impact on the local community. The results indicate that estimated local income in the presence of a professional sports franchise is lower than what would be estimated in the absence of a professional sports franchise. Our results imply that on the basis of the incremental local per capita income they generate, professional sport franchises do not justify the abatements, concessions, and incentives that are used to attract them to an MSA. If their goal is to increase their citizens' per capita income, cities should stop using these tactics to attract professional sports teams to their markets.

Robert A. Baade, Robert Baumann and Victor Matheson

(*"Selling the Game: Estimating the Economic Impact of Professional Sports through Taxable Sales."* Southern Economic Journal. Vol. 74(3), 2008, pp. 794-810.)

INTRODUCTION

Sports boosters often claim that sports teams, facilities, and events inject large sums of money into the cities lucky enough to host them. Promoters envision hoards of wealthy sports fans descending on a city's hotels, restaurants, and businesses and showering them with fistfuls of dollars. For example, the National Football League (NFL) typically claims an economic impact from the Super Bowl of around \$400 million (National Football League 1999), Major League Baseball (MLB) attaches a \$75 million benefit to the All Star Game (Selig, Barrington, and Healey 1999) and up to \$250 million for the World Series (Ackman 2000), and the estimated effect of the National Collegiate Athletic Association (NCAA) Men's Basketball Final Four ranges from \$30 million to \$110 million (Mensheha 1998; Anderson 2001). Multi-day events such as the Olympics or soccer's World Cup produce even larger figures.

Boosters are often vague about exactly what is being measured in these claims of hundreds of millions of dollars

CONCLUSIONS

Professional sports leagues, franchises, and civic boosters have used the promise of sports franchises, new stadiums and arenas, and all-star games or league championships as an incentive for host cities to construct new stadiums or arenas at considerable public expense. In the past, league- and industry-sponsored studies have estimated that mega-events such as the Super Bowl and all-star games increase economic activity by hundreds of millions of dollars in host cities. Similar studies claim that new stadiums or franchises also can have hundreds of millions of dollars of annual local economic impact. Our data-led regression analysis of taxable sales in Florida over the period from 1980 to mid-2005 fails to

of benefits, making direct comparisons difficult, but the overall claims are clear: Professional sports provide huge economic windfalls for host cities.

Of course, leagues, team owners, and event organizers have a strong incentive to provide economic impact numbers that are as large as possible in order to justify heavy public subsidies. When leagues consider expansion or franchise relocations, they frequently highlight the potential economic benefits of a new franchise in order to minimize the team's or league's required contribution to the funding of the stadium or arena in which the team will play.

Since many economic impact studies are commissioned by owners, leagues, or event organizers, which stand to benefit directly from the public subsidies such reports are designed to elicit, one must question whether such studies can be believed.

support these claims. New stadiums, arenas, and franchises, as well as mega-events appear to be as likely to reduce taxable sales as to increase them. Similarly, strikes and lockouts in professional sports have not systematically reduced local taxable sales. While these results, like any econometric estimates, are subject to some degree of uncertainty, they clearly place doubt on boosters' claims of huge economic windfalls. Cities would be wise to view with caution economic impact estimates provided by sports boosters, who have a clear incentive to inflate these estimates. It would appear that "padding" is an essential element of many games both on and off the field.

Dennis Coates and Brad Humphreys

(*"The Effect of Professional Sports on Earnings and Employment in the Services and Retail Sectors in U.S. Cities"* Regional Science and Urban Economics. Vol. 33, 2003, pp. 175-198.)

INTRODUCTION AND MOTIVATION

Most professional sports construction projects receive substantial government subsidies. Potential increases in employment, income and other benefits often are used to justify these subsidies and prospective 'economic impact' studies, commissioned and paid for by proponents of new sports construction projects, claim to quantify these economic benefits. In some cases, prospective estimates of jobs created by these projects run into the thousands. These impact studies often assume that spending at restaurants, bars, hotels, and motels will rise as a consequence of building a stadium and attracting a professional sports team.

Opponents of stadium and arena construction counter that the spending and income generation effects

of sports are quite limited. Spending on sports substitutes for spending on other types of entertainment, and on other goods and services more generally, so there is very little new income generated. Indeed, Coates and Humphreys (1999, 2001) provide evidence that professional sports actually reduces local incomes. Key to this argument is the extent to which spending on sports-related activities substitutes for spending on other goods and services.

This paper addresses this substitution by focusing on the relationship between the sports environment and the employment and earnings of workers in those sectors of the economy most closely linked to the sports environment, eating and drinking establishments, hotels and other

lodgings, and amusements and recreation, as well as the broader service and retail sectors.

We formulate econometric models of the determination of employment and earnings in specific economic sectors in Metropolitan Statistical Areas (MSAs). We estimate these models using employment and earnings data collected from the US Bureau of the Census' Regional Economic Information System (REIS) and data reflecting the sports environment in these MSAs drawn from a wide variety of

CONCLUSIONS

In this paper we have examined the impact of professional sports on employment and earnings in narrowly defined sectors of the economies of US cities. **Our results suggest that professional sports has a small positive effect on earnings per employee in the Amusements and Recreation sector, but that this positive effect is offset by a decrease in both earnings and employment in other sectors of the economy.**

These results have several important implications. Firstly, these results call into question the validity of multipliers as a tool for assessing the overall impact of sports on the economy. The multiplier approach attempts to quantify indirect benefits flowing from professional sports by assuming that each dollar of direct spending on sports propagates through the economy and increases

sources. In contrast to the results found in most prospective 'economic impact' studies, we find that although sports may increase wages within the Amusements and Recreation sector (SIC 79) by a small amount, they also reduce earnings in the Eating and Drinking Establishments sector (SIC 58) and employment in the larger Services and Retail Trade sectors. On balance the overall impact of sports on employment and earnings in MSAs is negative.

spending and income in other sectors. **Our results suggest that the direct spending on sports does not lead to additional earnings in other sectors of the economy like restaurants, bars and hotels.** Instead, spending on sports and spending in other related areas appear to be substitutes.

Secondly, our results shed new light on the reason that professional sports reduce the level of income in cities. The negative effect of sports on earnings of employees of restaurants and bars, and on employment in Retail and Services supports the idea that sports reduce real per capita income in cities through both substitution in private spending and through the creation of new jobs which pay less than the average prevailing wage.

Robert A. Baade

("Professional Sports as Catalysis for Metropolitan Economic Development." Journal of Urban Affairs. Vol. 18, No. 1, 1996, pp. 1-17.)

ABSTRACT

Cities throughout the United States are facing an unprecedented number of threats from the professional sport teams they host to build new playing facilities or lose the franchise. To attract or retain a team, cities are offering staggering financial support and rationalize their largesse on economic grounds. **Do professional sports increase income and create jobs in amounts that justify the behavior of cities? The evidence detailed in this paper fails to support such a rationale. The primary beneficiaries of subsidies are the owners and players, not the taxpaying public.**

To ease taxpayer pain, cities have rationalized the stadium spending spree on investment grounds. Taxpayers are told that professional sports stadiums and teams enrich rather than deplete local treasuries and that paying for

professional sports now will mitigate future tax burdens by stimulating local job creation and incomes.

Are sports facilities and teams a gaggle of geese that lay golden eggs? **The purpose of this paper is to evaluate the promise that professional sports increase income and jobs in the metropolitan areas hosting teams.** This paper proposes a methodology through which estimates of stadium economic impact generated by the gross expenditure and economic multiplier approach, common to the economic impact studies commissioned by teams and cities, can be filtered. **The statistical evidence gathered through this study indicates that professional sports as a golden goose ranks among the most enduring and greatest sports myths.**

CONCLUSIONS AND POLICY IMPLICATIONS

Public subsidies for professional sports have been rationalized on the grounds that teams and stadiums induce economic expansion and create jobs. One measure of economic development is real income. In an earlier paper, Baade (1994) found few instances of a correlation between a city's adoption of a team or construction of a stadium and increases in city real per capita income. One purpose of this paper was to provide cities with a methodology and statistics for enhancing their perspective on a second rationale for public subsidization of professional sports, job creation.

For jobs to be created within a metropolis, professional sports would have to either induce an increase in aggregate spending on city goods and services or induce spending shifts toward industries that exhibit a more labor-intensive character. **In general, the results of this study do not support a positive correlation between professional sports and job creation.** This finding, coupled with the absence of a positive correlation between professional sports and city real per capita income, suggests that professional sports realign economic activity within a city's leisure industry rather than adding to it.

These results are at odds with what has been promised (often articulated through economic impact studies) by sports boosters.

These results suggest that professional sports have been oversold by professional sports boosters as a catalyst for economic development. Regional economic models, even the sophisticated models constructed by Regional Economic Models Incorporated (REMI), are potentially misleading if those estimating the impact of professional sports do not conduct their analyses through general rather than partial equilibrium systems. Mills (1993) has provided extensive critiques of the economic

impact studies commissioned by advocates of subsidies for professional sports. Cities should be aware that the professional sports industry is relatively small and involves substitutions in leisure spending that can mute an impact identified in a partial equilibrium framework. As a consequence, cities should be wary of committing substantial portions of their capital budgets to building stadiums and to subsidizing professional sports in the expectation of substantial income and job growth. As a catalyst for economic development, professional sports' batting average resembles that of a replacement player rather than a major leaguer.

Dennis Coates and Brad Humphreys

(*"The Growth Effects of Sport Franchises, Stadia, and Arenas."* Journal of Policy Analysis and Management. Vol. 18, No. 4, 1999, pp. 601-624.)

ABSTRACT

This paper investigates the relationship between professional sports franchises and venues and real per capita personal income in 37 standard metropolitan statistical areas in the United States over the period 1969 to 1994. Our empirical framework accounts for the entry and departure of professional football, basketball, and baseball franchises; the construction of arenas and stadia;

and other sports related factors over this time period. In contrast to other existing studies, we find evidence that some professional sports franchises reduce the level of per capita personal income in metropolitan areas and have no effect on the growth in per capita income, casting doubt on the ability of a new sports franchise or facility to spur economic growth.

CONCLUSIONS

This paper investigates the connection between a metropolitan area's sports environment and its economy. We have extended the existing literature that empirically tests for the influence of sports and stadia on both the level and the growth rate of real income per capita.

Our empirical results suggest answers to each of our empirical questions. First, the sports environment significantly influences the level of real income per capita in an SMSA. This is an affirmative answer to our first question (*Do the changes in the sports environment change the level of real per capita income in the metropolitan area?*) Our evidence indicates, however, that the size and

significance of the effect of the sports environment on the level of real income per capita depends on the specification of the empirical model. **Unfortunately for proponents of sports-led development strategies, the general nature of this impact is negative.**

Our second conclusion is that the sports environment, or changes in that environment, has no impact whatsoever on the growth rate of real income per capita. This is a negative response to our second question (*Do changes in the sports environment affect the rate of growth of income in a metropolitan area?*).

Judith Grant Long

(*"Professional Sport Stadiums: Do They Divert Public Funds From Critical Public Infrastructure?"*)

U.S. Congress, Testimony before the Domestic Policy Subcommittee of the Oversight and Government Reform Committee, Washington, D.C., October 10, 2007)

TESTIMONY EXCERPTS (ON THE USE OF TAX-EXEMPT FINANCING BY CITIES AND COUNTIES TO FINANCE PROFESSIONAL SPORTS STADIUMS)

"On a smaller scale, but still worth noting, is an **additional uncounted public cost associated with the use of tax-exempt financing**, whereby taxpayers are paying a share of reduced interest costs through reduced federal tax revenues. As an example, to finance the Seattle Mariners' new ballpark in 1997, King County issued \$310 million in tax-exempt bonds carrying an interest rate of 5.9% at a time when equally-rated taxable bonds issued by King County carried an interest rate of 8%. **The difference in rates amounted to \$6 million in lost federal revenues.**

"**Since the vast majority of these new facilities have been built in urban areas, there may be a stark juxtaposition of the needs of low- and moderate-income residents living near the facilities, versus those of the high-income team owners, athletes, and facility patrons.** The contrast is economic, where poorer residents often can only afford to go to game events if they are somehow employed in the facility, as well as physical, with a high degree of amenity and security in the immediate environs of the facility, buffering patrons from these same residents.

Tax-exempt financing exacerbates these distributional impacts, since the significant benefits of these bonds accrue to a small group of private individuals at a significant cost to the general public, and with few corresponding public benefits, particularly for local residents.

“Yet under existing regulations, it is unreasonable to expect that state and local decisions-makers will be able to fend off the considerable political pressure exerted by private individuals to gain access to the benefits of tax-exempt financing.”

Judith Grant Long

(“*A History of Public Funding for Major League Sports Facilities, 1890 to 2001.*” 2004: Center for Urban Policy Research Working Paper Series, E.J. Bloustein School of Planning and Public Policy, Rutgers University.)

NOTE:

~~This extensive series of reports is the most comprehensive set of cost data on U.S. sports facilities.~~

Every facility built from 1890 – 2001, for all of the “big four” sports (NFL, MLB, NBA and NHL) is included within.

Thorough discussion of the findings of this data is contained within the paper “*Full Court: The Real Cost of Public Funding for Major League Sports Facilities*” presented above.

Robert A. Baade and Victor Matheson

(“*Have Public Finance Principles Been Shut Out in Financing New Stadiums for the NFL?*” Public Finance and Management. 2006: Vol.6, Iss. 3, Pg. 284, 36 pp.)

ABSTRACT

Over the past 15 years, new stadiums in the National Football League have been built at an unprecedented rate, and most new facilities have utilized significant public funds. This paper looks at whether the methods used to finance these new facilities honored public finance principles regarding equity and efficiency. While some common sources of public funds for sports infrastructure such as ticket taxes and personal seat licenses are both

equitable and efficient, an examination of the 20 NFL stadiums constructed or refurbished since 1992 reveals a trend towards an increased reliance on taxation of visitors through hotel and rental car taxes. Though taxation of persons living outside one’s own metropolitan area is appealing, this paper suggests that these sources of funding are neither equitable nor efficient.

CONCLUSIONS AND POLICY IMPLICATIONS

The purpose of this paper was to analyze the evolution of public financing for building or renovating stadiums used by the NFL, and to analyze the funding mechanisms based on equity, efficiency, and transparency criteria. Various forces have conspired to fashion a movement toward methods for financing stadiums that appear to deflect the tax burden to nonresidents, make the individual burden sufficiently small so as to minimize tax resistance through maximizing taxpayer apathy, and obscure the financing method so that taxpayers have a difficult time determining how the stadium project will affect their tax status overall.

The major policy implication is that cities cannot act alone to compel the design of stadium subsidies that are

more equitable, efficient, and transparent. The current funding outcome is in large part due to the asymmetry at the bargaining table between the NFL and government. **As long as the NFL maintains an excess demand for teams, it can play one city off against the other, use in effect a “prisoner’s dilemma” to their advantage, to fashion a stadium funding package that maximizes the well being of the team and league at the expense of the public.**

The reality is that subsidies for each team ultimately maintain the status quo with regard to team financial standings and only serve to enhance the absolute wealth of the individual teams and the league.

Phillip Miller

(*"Private Financing and Sports Franchise Values: The Case of Major League Baseball."* Journal of Sports Economics. Vol. 8, No. 5, October 2007, pp. 449-467.)

ABSTRACT

This article examines the impact of receiving a new stadium on team franchise values. The author argues that a new stadium will increase the franchise values of teams regardless of how construction was financed. A team playing in a stadium that it owns will be able to capitalize the value of the stadium in the team's franchise value and will thus have a higher franchise value. Using panel data for Major League Baseball teams from 1990-2002, the author finds that after controlling for team quality and metro area differences, regardless of the financing mechanism, a team playing in a brand new stadium realizes

an increase in its franchise value. It is also found that a team playing in its own stadium has a higher franchise value than a team playing in a public stadium. However, the difference in franchise values between playing in a team-owned stadium and playing in a public stadium does not offset the average cost of constructing the stadium. **The article thus provides a deeper understanding of the determinants of franchise values and of the motives of sports team owners in their lobbying efforts for public subsidies.**

DISCUSSION AND CONCLUSION

In this article, I examine the effect of the receipt of public funding for a new sports stadium on the franchise values of professional sports teams. I argue theoretically that the receipt of a new stadium should increase the revenue-generating capability of a team but that the receipt of a new stadium could increase operating costs as well. As long as the marginal costs are less than the marginal revenues, the franchise values of teams moving into new stadiums will be higher after the move.

The empirical results suggest that regardless of the financing mechanism, a new stadium provides a boost to team franchise values. If the team plays in a privately

financed and privately owned stadium, then the team's franchise value increases over time. If the team plays in a publicly owned and publicly financed stadium, as the stadium ages, the team's franchise value falls, all else equal. However, the empirical results suggest that the difference in franchise values between playing in a privately owned privately financed stadium and playing in a publicly owned, publicly financed stadium does not offset the cost of construction, even if team owners do not discount the future. This article thus provides a deeper understanding of the motives behind the lobbying efforts of professional sports team owners in seeking public subsidies.