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## Should Cities Subsidize Sports and Sport Venues?

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## Non-Economic Interests

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According to Mathew Peters “The greatest benefits may not drive from measurable economic activities attributed directly to the financial success of the team but rather from the improved infrastructure, urban renewal and construction with a venue to accommodate the diverse needs of the area.”



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## Non-Economic Interests

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- ◆ Sports Strengthen a cities national and regional image, both on TV and Sporting events in person
- ◆ Better city image equals more tourist, businesses, residents, and expand the tax base.
- ◆ Sports facilities lead to community pride and solidarity



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## Non-Economic Interests

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- ◆ In the case of Camden Yards in Baltimore, the Baltimore Sun wrote, “In uplifting psychological impact on the city, over and above any physical or economic impact”
- ◆ Harder to measure than economic impacts

## Non-Economic Interests

- ◆ In the case of Harrisburg, Pennsylvania
  - Introduced Minor League Baseball for economic development on the city island
  - Now 600,000 tourist visit the island each year

## Non-Economic Interests

- ◆ Professional Sports keep the number of franchises below the number of cities that can support a team
  - Comparative Advantage
- ◆ Cities must compete for a professional sports team to play in their city and or to keep the teams in their cities
  - Subsidies

## Non-Economic Interests

- ◆ A city has a responsibility to provide valuable entertainment to its residents
  - Sports Stadiums and Venues
- ◆ Stadium provide Entertainment Value
  - World Series, Bowl Games, Super Bowls
  - Concerts
  - Trade Shows

## Why do cities have to Subsidize Sport Stadiums?

Stadium costs cannot be recovered from stadium revenue dollars alone is why a subsidy is needed.

## Economic Facts

- ◆ Cities with professional sports will be the cities that prosper
- ◆ Spin-Off Development
- ◆ Jobs Created
- ◆ People who come to the games or other entertainment events are spending money outside the walls of the stadium
- ◆ Downtowns with stadiums now have something to offer
- ◆ Revenues from Major Events

## Economic Facts

- ◆ Post 1990 Stadiums are developed in an urban setting.
- ◆ Pre 1990 stadiums were developed outside the city with a parking lot for a moat, not providing spin-off development
- ◆ Baade's research is done on the pre 90's stadiums not post or new generation stadiums

## Baade's Model

- ◆ Assumes money generated by the stadium is quickly disbursed beyond the stadiums envisions.
  - True, however a subsidy for a business does the same
- ◆ Stadiums are self contained profit centers

## Baade's Model

- ◆ Ignores fiscal impact sporting events and revenues have on host jurisdiction.
  - Wage or income tax
  - Sales tax
  - Admission tax
- ◆ Low wage jobs
  - Cities need diverse mixture of jobs
  - Not everyone gets to have an education or specialized training

## Baade's Model

- ◆ Opportunity Cost
- ◆ What jobs will be created
- ◆ Economic Benefit
  - Directly
  - Indirectly
- ◆ Economic value

## Facts About Subsidies

- ◆ More than half the U.S. population lives in one of the 38 metro areas that host one or more teams from the four major professional sports leagues.
- ◆ More than \$7 billion will be spent on new facilities by the year 2006
- ◆ Subsidies to professional sports facilities cost taxpayers some \$500 million a year
- ◆ Sports stadiums are subsidized in many ways:
  - construction and ownership by a government agency
  - construction and operating grants paid to private owners or developers
  - state and local tax abatements
  - by the use of federal tax-exempt bonds to finance construction



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## Political Concerns

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- ◆ From the most liberal Democrats to the most conservative Republicans, sports pork is a rampant, bipartisan effort, and there is no end in sight.
- ◆ The U.S. is in the grip of a massive public spending spree on professional sports.
- ◆ “If we began to subsidize baseball teams, all sorts of business enterprises would demand the same things.”  
(Robert F. Wagner)



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## Economic Concerns

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- ◆ Public money for private gain
- ◆ Negligible economic benefits
- ◆ Destroy jobs and drive down wages
- ◆ Costs outweigh the benefits
- ◆ Divert resources from funding priorities



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## Social Benefits (I)

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- ◆ Contrary to the facts, fans are buying tickets, merchandise, hot dogs, peanuts, and Cracker Jacks, as they cheer home runs, touchdowns, three point shots, and stick saves by the home teams.
- ◆ Cultural and sports activities not only bring people together (socializing) but also create great an entertainment value.



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## Social Benefits (II)

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- ◆ An important element missing in the debate is the impact of a sports franchise on a metro area's quality of life.
- ◆ The contribution (even though difficult to measure) to quality of life may exceed more traditional job creation and tax revenue benefits
- ◆ When the quality-of-life benefits are included in the calculation, public spending may not appear to be such a bad investment for some metro areas.

## Social Benefits (III)

- ◆ How the presence of a major league franchise contributes to the quality of life of a host metro area's residents:
  - Increasing happiness of sports fans (home game attendance)
  - Quality-of-life improvement if benefits > costs (willingness to pay > costs)
  - Games serve as an occasion for parties and barbecues
  - Shared community experience, regardless of being a sports fan

## Conclusion (I)

- ◆ Does it make sense for metro areas to use public funds to attract and retain major league sports franchises?
  - The answer is definitely no if benefits are limited to increases in economic activity and tax revenue collection.
  - However, a strong case can be made that the quality-of-life benefits from hosting a major league team can sometimes justify the large public outlays associated with doing so.
  - Quality-of-life benefits are rarely explicitly included in the debate on using public funds to attract and retain a major league sports franchise.

## Conclusion (II)

- ◆ Does it make sense for metro areas to use public funds to attract and retain major league sports franchises?
  - Acknowledging that the main benefit from hosting a team comes from improved metro-area quality of life should help to value this contribution.
  - Residents and elected officials who understand that the benefits of a sports team are the same sort that flow from parks, zoos, museums, and theater can decide on their own how much hosting a major league team is worth.

## Further Reading

- ◆ Coates, D. & B.R. Humphreys (2003). The Effect of Professional Sports on the Earnings of Individuals: Evidence from Microeconomic Data. *UMBC Economics Department Working Paper 03-104*.
- ◆ Rappaport, J. & C. Wilkerson (2001). What Are the Benefits of Hosting a Major League Sports Franchise? *Kansas City Federal Reserve Bank Economic Review* (First Quarter 2001).
- ◆ Blast, Joseph L. Sports Stadium Madness: Why it started—how to stop it. *The Heartland Institute, Chicago Illinois. Working Paper No.85, February 23, 1998.*