

# Financing Techniques and Stadium Subsidies in the United States

Ross D. Weiner

**I**N the United States, recent times have witnessed the use of sports stadiums as a force for urban redevelopment. Stadiums and professional sports teams have been seen as capable of restoring economic livelihood, social values, and communities. Municipalities have deployed new types of “financial technologies” in order to tap into these forces. Yet, the ability of stadiums and professional sports to achieve such goals has proven limited, at best. Why, then, have so many municipalities employed these financial technologies to such a large extent in the construction, financing, and maintenance of facilities that are likely to fail their promises? While stadiums may not be a cure for economic problems, they may, under appropriate circumstances, serve as part of a strategy aimed at restoring urban areas.

## Sports and Subsidies

Stadiums join numerous other strategies as modern ways of dealing with urban social and economic malaise. Flight from urban centers and the growth of suburban and exurban business districts have drawn employment and economic activity away from cities. As jobs and business activities have left central cities, crime, poverty, and desolation have set in. Shopping centers, museums, light rail lines, restored centers, and the like

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have all been developed to stave this tide and restore economic growth, draw population back into the urban core, reduce crime, and create social uplift. While each of these types of projects has its own form of implementation, the goals behind the projects are the same. These types of strategies all claim to create the conditions necessary to attract people and businesses back to urban centers. As such, they potentially provide the public benefits necessary to achieve these ends. Proponents of stadiums make the same claim.

If stadiums actually provide such public benefits, at great private cost, then the providers of such benefits should be compensated for the provision of these benefits. That compensation would come in the form of a subsidy. Municipal subsidizing of stadiums is accomplished through various types of financial technologies.

Jurisdictions<sup>1</sup> offer subsidies for the building of stadiums because sports teams are thought to provide an uncompensated social benefit to a municipality. That is, the *private* cost of producing such a benefit exceeds the *private* benefit received by the provider of the benefit. The municipality must then compensate the provider of the public benefit, in this case through subsidies relating to the stadium the team plays in.

This paper recognizes the numerous studies that have demonstrated that building stadiums for professional sports teams is not a viable strategy for urban redevelopment. Despite these studies, however, subsidies continue to be offered to builders of stadiums.<sup>2,3</sup> Why do the subsidies continue? This paper explores the four main drivers of stadium construction. It also explores the financial technologies used in stadium subsidies.

By focusing on the various financial technologies, this paper provides new insight into recent trends in public stadium construction and its well-documented economic consequences. It also demonstrates how these financial technologies depend on non-economic forces—cultural and political forces, for example—in order to function.

<sup>1</sup>This may be a city, county, state, or other political jurisdiction.

<sup>2</sup>Almost all academic studies of the economic benefits of a ball club, find no impact or a negative impact on the local economy. (See, for example, Austrian and Rosentraub 2002, Baade, Baade and Sanderson 1997a, Baade and Sanderson 1997b, Baade and Dye, Baim, Bast, Hamilton and Kahn, Noll and Zimbalist 1997a, Noll and Zimbalist 1997b, Noll and Zimbalist 1997c, Okner, Quirk and Fort, Rosentraub 1997, Rosentraub and Nunn, Rosentraub et al. Zimmerman).

<sup>3</sup>The focus of this paper is on the stadiums, financial technologies, and subsidies used in the United States. Municipalities in other nations have also used similar strategies. (See, for example, Jones and Johnstone et al.)

## The History of Public Subsidies to Sports Teams

Using public subsidies to build stadiums for private sports teams began in earnest in the United States after World War II. Before 1950, only one club, a baseball team, the Cleveland Indians, played in a public stadium. All other teams in all other

Shropshire  
Zimbalist  
Noll and Zimbalist, 1997a

Quirk and Fort  
Zimbalist

Okner  
Quirk and Fort

Quirk and Fort

Zimbalist

*<sup>4</sup>Part of the reason for the Dodger's departure from Brooklyn to Los Angeles in 1957 was the conflict between Walter O'Malley, owner of the Dodgers, and Brooklyn over the construction of a new stadium for the Dodgers (Quirk and Fort).*

*<sup>5</sup>Bast reports that over \$7 billion will be spent on professional sports facilities before 2006 and that most of this will be paid for by the public.*

Okner

Bast  
Quirk and Fort

Armacost  
Bast  
Noll and Zimbalist 1997a

sports played in private ballparks. This began to change in the late 1960s and 1970s as many of the old, private ballparks reached the limit of their usefulness and needed to be replaced. Frightened by the flight of the baseball teams, the Brooklyn Dodgers<sup>4</sup> and the New York Giants from New York to California, many cities built new stadiums for their respective teams in the hopes of keeping the teams in their cities. By 1970 almost 70 percent of the stadiums in which clubs played were public. The trend towards public stadiums grew throughout the 1970s, with about 84.5 percent of teams playing in public stadiums by 1980. This number remained fairly steady throughout the late 1980s and 1990s. What changed were the costs of these stadiums and the sizes of the subsidies granted to the teams.

For example, the average stadium cost around \$25 million dollars in the 1960s. This rose to around \$55 million in the 1970s and corresponded rather closely to the rate of inflation. However, in recent years, the costs of stadium construction have increased at a rate 50 to 100 percent faster than the rate of inflation. Table 1 lists the costs of some new stadiums, many of which have been at least partly financed through public means.<sup>5</sup>

The data reveal that the public cost of stadiums has increased dramatically since the 1990s. Whereas the average publicly financed portion of a stadium was \$122.1 million between 1990 and 1999 (\$79.5 million in 1982–1984 dollars), that amount rose to \$165.5 million (\$94.3 million in 1982–1984 dollars) by the 2000s. This represents only the portion of the public contribution related to stadium construction, not the entire subsidy.

While the cost of stadiums has risen, so have the public subsidies and the use of financial technologies to provide these subsidies. Whereas in 1971 the total subsidies to all professional sports teams was around \$23 million (\$56.8 million in 1982–1984 dollars), that figure had reached an estimated \$500 million (\$346 million in 1982–1984 dollars) by the end of the 1980s and 1990s. The typical subsidy for a sports facility now costs local taxpayers over \$10 million per year. The data above suggest that this number may be rising.

There are four ways that governmental units provide subsidies for the building of stadiums: (1) by publicly financing stadiums and stadium renovations, (2) by offering favorable leases to clubs (i.e., low or no rent), (3) by offering direct cash payments, and (4) by using tax-exempt bonds to finance stadium construction (i.e., offering lower interest rates).

**TABLE 1**  
**Public and Private Construction Costs of Various Stadiums, 1972–2003**

<i>Facility</i>	<i>Tenant(s)</i>	<i>Year Opened</i>	<i>Total Cost (\$Millions)</i>	<i>Public Cost (\$Millions)</i>	<i>Percent Public</i>
Great American Ballpark	Cincinnati Reds	2003	334	30	8.98%
New Houston Stadium	Houston NFL expansion team	2002	367	252	68.66%
Ford Field	Detroit Lions	2002	325	115	35.38%
New Seahawks Stadium	Seattle Seahawks	2002	400	100	25.00%
New Mile High Stadium	Denver Broncos	2001	400	300	75.00%
New Steelers Stadium	Pittsburgh Steelers	2001	252	175	69.44%
Miller Park	Milwaukee Brewers	2001	394	304	77.16%
PNC Park	Pittsburgh Pirates	2001	262	222	84.73%
Nationwide Arena	Columbus Blue Jackets	2000	150	0	0.00%
Xcel Energy Center	Minnesota Wild	2000	130	130	100.00%
American Airlines Center	Dallas Mavericks, Stars	2000	300	125	41.67%
Paul Brown Stadium	Cincinnati Bengals	2000	450	450	100.00%
Comerica Park	Detroit Tigers	2000	300	100	33.33%
Enron Field	Houston Astros	2000	248.1	169	68.12%
Pacific Bell Park	San Francisco Giants	2000	330	10	3.03%
Adelphia Coliseum	Tennessee Titans	1999	292	234	80.14%
Cleveland Browns Stadium	Cleveland Browns	1999	314	293	93.31%
Philips Arena	Atlanta Hawks, Thrashers	1999	213	62.5	29.34%
RBC Center	Carolina Hurricanes	1999	158	92	58.23%
American Airlines Arena	Miami Heat	1999	213	39.1	18.36%
Conseco Fieldhouse	Indiana Pacers	1999	183	79	43.17%
Pepsi Center	Denver Nuggets, Colorado Avalanche	1999	170	8.8	5.18%
Staples Center	Los Angeles Lakers, Clippers, Kings	1999	375	12	3.20%
Safeco Field	Seattle Mariners	1999	534	372	69.66%
PSINet Stadium	Baltimore Ravens	1998	223	200	89.69%
Bank One Ballpark	Arizona Diamondbacks	1998	354	253	71.47%
Raymond James Stadium	Tampa Bay Buccaneers	1998	168	168	100.00%
National Car Rental Center	Florida Panthers	1998	212	184.7	87.12%
FedEx Field	Washington Redskins	1997	250.5	70.5	28.14%
MCI Center	Washington Wizards, Capitals	1997	260	60	23.08%
Turner Field	Atlanta Braves	1997	235	0	0.00%
Ericsson Stadium	Carolina Panthers	1996	248	50	20.16%
Gaylord Entertainment Ctr	Nashville Predators	1996	144	114	79.17%
First Union Center	Philadelphia 76ers, Flyers	1996	217.5	32	14.71%

<i>Facility</i>	<i>Tenant(s)</i>	<i>Year Opened</i>	<i>Total Cost (\$Millions)</i>	<i>Public Cost (\$Millions)</i>	<i>Percent Public</i>
HSBC Arena	Buffalo Sabers	1996	127.5	56.1	44.00%
Ice Palace	Tampa Bay Lightning	1996	161.8	102	63.04%
Trans World Dome	St. Louis Rams	1995	290	290	100.00%
Coors Field	Colorado Rockies	1995	215	168	78.14%
Fleet Center	Boston Celtics, Bruins	1995	275	115	41.82%
Key Arena	Seattle SuperSonics	1995	119	74.5	62.61%
Rose Garden	Portland Trail Blazers	1995	262	35	13.36%
Gund Arena	Cleveland Cavaliers	1994	152	152	100.00%
Kiel Center	St. Louis Blues	1994	171.5	36.5	21.28%
United Center	Chicago Bulls, Blackhawks	1994	175	10	5.71%
Ballpark at Arlington	Texas Rangers	1994	191	161	84.29%
Jacobs Field	Cleveland Indians	1994	175	175	100.00%
Arrowhead Pond/Anaheim	Mighty Ducks of Anaheim	1993	120	120	100.00%
San Jose Arena	San Jose Sharks	1993	168	136	80.95%
Alamodome	San Antonio Spurs	1993	195	195	100.00%
Georgia Come	Atlanta Falcons	1992	210	210	100.00%
America West Arena	Phoenix Suns, Coyotes	1992	95	45	47.37%
Oriole Park/Camden Yards	Baltimore Orioles	1992	235	220	93.62%
Delta Center	Utah Jazz	1991	102.6	24.6	23.98%
Comiskey Park	Chicago White Sox	1991	150	150	100.00%
Target Center	Minnesota Timberwolves	1990	104	66	63.46%
Tropicana Field	Tampa Bay Devil Rays	1990	138	138	100.00%
TD Waterhouse Arena	Orlando Magic	1989	110	110	100.00%
Arco Arena	Sacramento Kings	1988	40	0	0.00%
Charlotte Coliseum	Charlotte Hornets	1988	58	58	100.00%
Bradley Center	Milwaukee Bucks	1988	90	0	0.00%
Palace of Auburn Hills	Detroit Pistons	1988	70	0	0.00%
Pro Player Stadium	Florida Marlins, Miami Dolphins	1987	145	30	20.69%
RCA Dome	Indianapolis Colts	1984	78	48	61.54%
Metrodome	Minnesota Twins, Vikings	1982	75	68	90.67%
Continental Airlines Arena	New Jersey Nets, Devils	1981	85	85	100.00%
Reunion Arena	Dallas Mavericks, Stars	1980	27	27	100.00%
Giants Stadium	New York Giants, Jets	1976	68	68	100.00%
Nassau Coliseum	New York Islanders	1972	28	28	100.00%

Source: Rodney Fort's Sports Business Data Pages

<http://users.pullman.com/rodford/SportsBusiness/BizFrame.htm>

### ***Publicly Constructed Stadiums***

One form of subsidy is the construction of sports stadiums by the public sector. The public pays for (at least some) of the stadium's construction and maintenance. These costs have been rising over time due, in part, to the increasing specialization and customization of stadiums and the increasing size of stadiums.<sup>6</sup> As the public's options for entertainment outside of sports have expanded, team owners have sought to find new ways to attract people to the stadium. One of the most effective ways of doing this is through the construction of a unique and eye-catching facility. Throughout the 1980s and 1990s, much of the media and the public bemoaned the replacement of "classic" stadiums with drab, multi-use, doughnut-shaped facilities. What people clamored for were parks more like Fenway Park (Boston), Yankee Stadium (New York), and Wrigley Field (Chicago). This was in part fueled by a culture that romanticized the "good-ole days" and a return to "the way it used to be." The quirky parks built in the early part of the twentieth century fit the bill as part of this romantic vision of the past. Somehow the public found sports to be far more enjoyable when played in stadiums resembling these "temples." Indeed, Rosentraub finds stadiums to be much like modern-day cathedrals. These new buildings have better seating, giant television screens, exploding scoreboards, and a host of audio and visual effects. All of these additional amenities and innovations drive up the cost of stadium construction.

Along with these features, teams have sought to incorporate many new types of facilities into new stadiums, typically in the pursuit of additional revenues. Owners have sought to increase the size of stadiums through an increase in the scope of activities that take place within them. A stadium is no longer just a place to watch a game. Club owners have sought out these new sources of revenue mainly because physical limits exist to the practical size of a stadium, so that the number of seats in a stadium cannot be expanded indefinitely. Nor is it entirely clear that even if the number of seats in a stadium could be expanded indefinitely those seats could be filled. Hence, since a club's ability to increase profits through stadium expansion is limited, clubs have sought to introduce other sources of revenue into the stadium. Included among these new sources of revenue are luxury boxes, luxury seating, in-stadium restaurants, team-based museums, expanded in-stadium souvenir sales and shopping opportunities for fans, high quality food concessions, and stadium clubs. Each of these

Hamilton and Kahn

Noll and Zimbalist 1997b

*<sup>6</sup>Note that a new stadium does not have to increase in seating capacity for it to increase in size. The incorporation of new facilities within ballparks has contributed a great deal to the increasing size of stadiums. In fact, Baade and Sanderson claim that the trend is towards larger stadiums with lower seating capacities.*

Noll and Zimbalist 1997a

Baade and Sanderson 1997a

Bast

Laing

Noll and Zimbalist 1997a

Rosenraub

Shropshire

(especially luxury-related items) adds to construction costs, in turn increasing the size of the public subsidy associated with the construction.

### *Favorable Leases*

Along with increasing stadium costs, the leases offered to clubs in the 1980s and 1990s have done much to increase the size of public subsidies to ball clubs and bolster profits. This technology often includes low (or, in some cases, no) rent and the coverage of maintenance costs for the stadium by the state. The lease for the new Comiskey Park that the Chicago White Sox signed with the state of Illinois is a prime example. The White Sox must pay the state *one dollar* per year in rent. The Illinois Sports Facility Authority (i.e., the state) receives 35 percent of the total of local broadcast revenues and signage exceeding \$10 million. The city of Chicago pays for insurance on the stadium and the costs of all capital repairs above \$500,000.<sup>7</sup>

A lease that had the team paying the total costs of the stadium (i.e., both fixed and variable costs) would substantially reduce, if not eliminate, the subsidy that the state provided.<sup>8</sup> That is, the financial technology would factor in all personnel, capital, and financing costs into its rent. However, this is rarely the case (witness the lease terms for the White Sox discussed above). Indeed, if this were the case (tax-exempt bonds notwithstanding), there would be little reason for clubs to turn to the state. Hence, the rental agreements between clubs and the state usually leave the state covering much of the fixed and variable costs of running a stadium. The portion of these costs that the state incurs is a subsidy to the ball club since, if the state did not pay for such things, the club would have to pay for them. For reasons discussed below, these subsidies have been rising over time.

Rosentraub points out that the rental agreements between professional sports clubs and the state typically contained few, if any, subsidies throughout the 1960s and into the 1970s. However, more recently, sports teams have entered into leases with states that leave the state carrying more of the burden. Hamilton and Kahn provide the example of the Baltimore Orioles and Camden Yards:

Camden Yards is not owned by the Orioles; it is owned by the Maryland Stadium Authority. If the authority leased the stadium to the Orioles at a price that covered the capital

Noll and Zimbalist 1997a

<sup>7</sup>See Noll and Zimbalist (1997a) for a detailed discussion of the lease arrangements between teams and the state. See Baim for a more quantitative analysis of stadium contracts and subsidies.

Okner

<sup>8</sup>Such a lease would not necessarily eliminate the subsidy provided to a club if a stadium was financed (at least partly) with tax-exempt bonds. See the discussion of tax-exempt bonds later in this section.

and maintenance costs of the facility, ownership would make no difference. But the terms of the lease are much more favorable to the Orioles than that. Whereas the authority bears annual operating and capital cost of approximately \$20 million (\$14 million in real interest and \$6 million in maintenance), the Orioles pay only approximately \$6 million in rent. . . (258–259).

This \$6 million rent, when coupled with the \$5 million that the Maryland Stadium Authority recovers through admissions tax revenue, leaves the state of Maryland providing, just on the basis of the rental terms of the lease signed with the Orioles, a subsidy of \$9 million.

Hamilton and Kahn

Favorable leases are thus a financial technology that enable municipalities to funnel public monies to professional sports teams.

### ***Direct Cash Payments***

Another type of financial technology consists of direct cash payments offered by cities or states in exchange for a club locating (or staying) in that city or state. While this is far less common than the other kinds of financial technologies discussed, it still occurs and can be rather substantial. For example, in order to keep the Pirates in Pittsburgh, that city provided a \$15 million “grant” to the group of investors who were purchasing the team.<sup>9</sup> In addition, the city provided another \$5–\$10 million in “grants” to help cover the team’s operating expenses. In another example, the city of Montreal and the province of Quebec provided \$33 million in cash to help a group of investors purchase the Expos. Both cities received essentially nothing in return, save for the team not relocating (for the moment). Another example of this sort of technology, though perhaps not quite as direct, is provided by Baade. Around 1986, the city of Philadelphia agreed to give the Philadelphia Phillies \$1 million for a new outfield scoreboard and to service the Phillies debt on their Panavision scoreboard (\$745,000 annually through 1992). In addition, the city agreed to pay \$1.5 million to the Phillies to cover past payments the club had already made on the Panavision scoreboard.

<sup>9</sup>The group of thirteen investors who purchased the team each had to raise \$2 million (Zimbalist).  
Zimbalist

Zimbalist

State and local governments are not the only sources of these financial technologies. The federal government participates as well through the provision of tax-exempt bonds to finance stadiums.



### ***Tax-Exempt Bonds***

<sup>10</sup>For a detailed discussion of the role and use of tax-exempt bonds (See Zimmerman.)

Yet another technology is provided to professional teams in the form of tax-exempt municipal bonds.<sup>10</sup> These bonds are often used to finance at least some of a stadium's construction costs. Tax-exempt bonds charge a lower rate of interest than taxable (private) bonds of equivalent risk. The financial technology here consists of federal taxpayers paying for these lower interest rates "in the form of forgone federal tax receipts from the interest income that would have been taxed had taxable debt been used to finance the stadium" (126–127).

Zimmerman

The interest rates on these tax-exempt bonds have run between 2 percent and 4.5 percent below the interest rate for comparable long-term taxable corporate bonds over the past 25 years. The savings (and, hence, subsidies) to ball clubs as a result of this technology are appreciable. For example, one estimate places the lifetime subsidy from tax-exempt bonds on a \$250-million stadium at \$75 million. Hamilton and Kahn estimate the subsidy from the federal government to the Baltimore Orioles at \$2 million, annually. Table 2 provides the estimates of the subsidies from federal tax-exempt bonds provided for various stadiums in 1989. Note that older stadiums receive smaller subsidies than newer ones.

Bast  
Zimmerman

Bast  
"If You Build It..."

Part of the reason for the considerable increase in the size of this federally provided subsidy is that stadiums have become more expensive to build, as described above. A more expensive stadium will require more financing, and hence require larger bond issues, resulting in a higher subsidy. Looking at 21 stadiums, Zimmerman found the total federal subsidy from the use of tax-exempt bonds to be \$24.3 million in 1989.

Zimmerman

**TABLE 2**  
**Tax-Exempt Bond Subsidies for Various Stadiums, 1989**

<i>Stadium</i>	<i>Year Opened</i>	<i>Federal Subsidy</i>
Atlanta-Fulton County	1964	\$237,000
Anaheim Stadium	1966	\$346,000
San Diego – Jack Murphy Stadium	1967	\$365,000
Cincinnati – Riverfront Stadium	1970	\$968,000
Seattle Kingdome	1976	\$1,398,000
Minnesota Metrodome	1982	\$1,932,000

Source: Zimmerman

## The Driving Forces Behind the Technologies

Four reasons explain why these technologies work: (1) the importance of sports in everyday culture, (2) the creation of the belief that sports act as an “economic engine,” (3) the monopoly position of professional sports teams, and (4) the power of local politicians.

### *Importance of Sports in American Culture*

Sports have a profound cultural impact in the United States. They are thought to “build character” and impart values to people in a way that is only possible through sport. Participation in sports is thought to create “good Americans.” Professional players are often held up as role models and representatives of “good character” for these reasons. For example, a poll conducted in 1996 found:

Edwards  
Rosentraub  
Rosentraub

...Americans strongly believe the lessons of sports contribute positively to other realms of life. An amazing 91 percent think sports participation helps people get along with those from different racial or ethnic groups; 84 percent think sports involvement helps people in the business world; 77 percent think sports helps people be better parents; and 68 percent think sports help people get along better with people of the opposite sex (30).

Tharp

Sports (especially professional sports) play a major role in the everyday life of millions of Americans. Indeed, many people pay more attention to the sports section of the newspaper than to any other section. The sports portions of the nightly news take up significant amounts of broadcast time, and many local stations produce or carry shows devoted exclusively to the coverage and discussion of professional (and collegiate) sports. Sports metaphors are frequent within the language of many Americans. For example, people are often granted three chances at doing something correctly based on the expression “three strikes and you’re out.” Discussion of trade with other nations, relations between men and women, and relations between whites and people of color often revolve around the idea of a “level playing field.” Sports (especially professional sports) are an important part of American culture and have come to occupy nearly every nook and cranny of life in the United States. Tharp states:

Rosentraub

Tharp

The love of athletics has now become deeply rooted in national life...The idiom of sports is the way that most

Americans feel most engaged—and comfortable—talking about racial issues, standards of excellence, comparative worth, even right and wrong. And the passion over sports issues can rival the intensity of political debates (30).

Part of an explanation for the large role that sports play in American life is found in the importance granted to sports in American education. From kindergarten onwards through high school, students participate, and are often required to participate in, athletic activities. Many of the major events occurring in high school and college revolve around sports.

Rosentraub The proliferation of sports does not end in the classroom. Most major holidays in the United States are accompanied by major athletic events. It is no wonder that sports have come to occupy an important part of everyday life for many people in the United States. Being so important, it is not surprising that people are often predisposed to support sports (especially professional sports). This predisposition enables officials to employ the financial technologies that subsidize stadiums. This importance is related to another reason for the success of these financial technologies and the resultant subsidies—collective identity.

Pope The sense of collective identity provided by professional sports teams helps to shape the large role played by professional sports in the United States. A team provides a community with something common around which to rally, regardless of gender, color, or other descriptive characteristics. Euchner states:

Whether on the playing field or as the object of competition with a city that hopes to lure them away, the “home” team is a symbol for the whole community. . . . This identity can overwhelm all the other ways that a city’s residents think about themselves; it can therefore obscure other possible emblems of civic identity, large and small. A city’s identification with a sports team creates vivid symbolism of a common interest, but it also washes away other less dramatic concerns that might be more important for a community, like schools, parks, housing, and libraries (12).

Associated with this sense of collective identity, and also helping to shape the discourse that finds professional sports important, is the “major league” identity that many feel comes with having a professional team. Indeed, the arrival or departure of a team from a city is often viewed as the arrival or departure

of that city from “first-tier” status—consider the departure of the Dodgers from Brooklyn. Such a view of the importance of professional sports teams thus helps to compel cities to either actively pursue attracting a team or try to retain the team they already have (for fear of losing their identity). This identity itself is associated with a belief that possession of a “major league” identity grants a city the ability to attract businesses (especially large corporations) and expand employment, and to also become a more desirable place to live. If, in the public’s perception, a team is able to do all of this, then it may be possible to “major league” deploy the financial technologies discussed above in order to provide the team with a subsidy.

Zimbalist  
Euchner

Austrian and Rosentraub 2002  
Baade  
Bast  
Euchner  
Noll and Zimbalist 1997a  
Rosentraub  
Shropshire  
Zimbalist  
Zimmerman

If a “major league” city becomes a more desirable locale for both people and corporations, then the team providing this identity can be theorized as the economic engine driving this development. Many municipalities justify their pursuit of a professional team on these grounds.

Baade  
Bast  
Noll and Zimbalist 1997c

Perhaps the best example of this sort of thinking occurred in the city of Indianapolis. Beginning in the 1970s, Indianapolis centered its urban redevelopment program on the recruitment and retention of sports teams. It built new homes for the Pacers basketball team and the Colts football team and aimed to become the amateur sports capital of the United States. Since then, the center of Indianapolis has enjoyed a rebirth, but the creation of jobs and population growth is not attributable to the presence of professional sports.<sup>11</sup>

Rosentraub 1997  
Rosentraub et al.

Austrian and Rosentraub 2002  
Rosentraub

*<sup>11</sup>White not a factor in the growth of jobs, or population, the presence of professional sports teams may have been a positive factor in other ways.*

Included in these justifications is almost inevitably an economic impact study (i.e., cost-benefit analysis)—typically conducted by the proponents of the new stadium—demonstrating that the construction of a new stadium for an existing or potential team will create a large enough number of jobs and raise incomes so much that the revenues flowing into the state will rise to such a level that the stadium will “pay for itself.” If a stadium will “pay for itself” and provide such benefits then, according to the discourse deployed, it is worthy of a subsidy.

Noll and Zimbalist 1997a

Yet, despite the “civic pride” a professional sports team and stadium may provide, studies have shown that the benefits from this sense of pride accrue mainly to the frequent users of the facilities the teams play in. The public at large does not receive this benefit from the presence of the team. If this is the case, then those who receive such benefits should be the ones who pay for them through higher ticket prices, specific taxes, seat licenses, or other possible financing technologies targeting such individuals.

Rosentraub

### ***Monopoly Power***

Given the discourse that finds sports teams to be powerful economic engines, it is no wonder that communities informed by this discourse demand a team. This demand will not be fully met, however, since the professional leagues actively restrict the number of teams, thereby creating a monopoly situation for any city looking to acquire a team. That is, the supply of teams is less than the demand for teams, and leagues prohibit supply from rising to meet demand. Since every city desiring a team cannot have one, cities must pay for access to the supply of teams available. Since (with rare exceptions) only a single team is available for any number of cities that demand a team, it is quite often the case that a team locates in the city willing to pay the highest fee for access to the team. This holds true for cities hoping to retain their team as well. Since a club can always leave a host city (pending league approval), the host city must be willing to pay the same fee for access to the team as potential hosts for that same team. If the city is unwilling to pay for access (at a price set by the club), then the club may leave the host city for “greener pastures” (i.e., a city willing to pay a higher fee).

Johnson  
Noll and Zimbalist 1997a

This fee that cities pay for access to a club is thus a monopoly premium and helps to enable the financial technologies used to subsidize stadiums. This monopoly premium does not enable the entire subsidy. A city, for various reasons, might still be willing to provide a subsidy to a ball club even if the monopoly situation did not exist. For instance, if a city’s decision to subsidize a team were informed by the other methods described, then the city would provide a subsidy, even if an adequate number of teams existed so as to meet demand.

Noll and Zimbalist 1997c

This monopoly premium rarely takes the form of cash. Typically, the monopoly premium is paid to a team through a more favorable lease, greater expenditure on a stadium by the city, or the construction of a more elaborate stadium than would otherwise have been the case. The monopoly position of a club helps to shape the revenue it receives from the state and hence its profits.

### ***Power of Politicians***

*I believe the citizens should have a say in this issue. If the voters pass this, we’ll move forward. If the voters don’t pass this, we’ll still move forward.*

Chandler, Arizona, Mayor Jay Tibshraeny speaking about the renovation of the Milwaukee Brewer’s spring training facility from Phoenix Gazette, October 13, 1995, quoted in R. Fort 1997b (146).

The decision to subsidize organized ball clubs is often made through a general election. As a result, both the stadium (i.e., subsidy) supporters and opponents often campaign vigorously for the electorate's vote. Since both sides of this debate have a different agenda and are often informed by different opinions concerning the benefits and costs of a city's having a professional team, the economic impact studies each side produces often contain rather disparate estimates of costs and benefits. The extent to which each side influences the electorate (and hence gains votes) is shaped by a host of factors, including access to the mass media, the quality of presentation, and the percentage of the electorate that considers itself fans of the club in question. Thus, even if the electorate were convinced that public investment in a stadium was a bad idea, it may be the case that the electorate may still choose to subsidize a team if the electorate contained a large enough number of fans fearing the distress (and subsequent psychological trauma) of losing the team.

Fort 1997a

These elections are inevitably close. The reason for this is a strategic one by the stadium proponents. If the election is won with a 70 percent majority, then perhaps a larger subsidy could have been demanded and the election won with a 51 percent majority. It is in the interest of the stadium proponents to win by as few votes as possible factored on the size of the subsidy offered to the team.

Elections are not the only political activity shaping the financial technologies available. For example, despite the defeat of ballot items designed to provide subsidies to clubs in Chicago, Milwaukee, and Seattle, each city still provided subsidies to their respective teams. Politicians in each jurisdiction were afraid of the potential political fallout from losing "their" team, despite the fact that the electorate had expressed its collective opinion to not provide subsidies. Politicians in each municipality were also afraid of losing the backing of the (rather powerful) individuals who owned (or operated) each team. In these cases and others, political power was used as a tool to defy the opinion of the electorate and obtain subsidies for the teams. Political processes, then, played a role in shaping the profits of these teams, these private enterprises.

Fort 1997b

### ***Sports as a Coalition Builder***

While professional sports may not engender economic growth, they *may* help in creating an urban core that is supportive of employment and population. Austrian and Rosentraub point out

Austrian and Rosentraub 2002

that Cleveland and Indianapolis were able to use professional sports as part of a way to assemble a coalition of private interests who were willing to commit private resources to the improvement and maintenance of their respective downtowns. This improvement was able to stave off (or at least slow) the flight of jobs from the core. In-and-of-itself, this could be considered a new and innovative form of financial technology available to municipalities.

Rosentraub

Professional sports can be considered as part of a tourism, hospitality, and entertainment package designed to draw people to the urban core. Since sports form a small part of an already small industry (tourism and entertainment), they cannot do much to alter the course of a city's economy. For example, Rosentraub argues that under the most generous of assumptions, sports represents only 1.1 percent of the Indianapolis economy. This is even more so the case in larger urban areas, such as New York City, where professional sports represent approximately 0.09 percent of the city's overall economy. What professional sports and stadiums can accomplish is to allow private interests to capitalize on the social and cultural benefits that accrue from the presence of a team. This provides for the presence of a common point to hold together a coalition of otherwise disparate interests that might otherwise vacate the downtown area. Sports help to make the downtown a "place to be." This is much like the redevelopment of Times Square in New York City, with its shift from small (and arguable, tawdry) shops to gigantic national retailers and entertainers, aimed at attracting high-income individuals from both New York City and the surrounding wealthy suburbs.

Mark et al.

The creation of a controlled, "safe" urban environment is the goal of this type of redevelopment strategy.

Austrian and Rosentraub 2002  
Judd and Fainstein

The introduction of sports stadiums to downtowns can be seen as serving much the same purpose. By creating an idealized urban environment, seemingly removed from the uncertainties of the typical urban experience, municipalities can use professional sports as a way to retain people and jobs. By making the downtown area "livable," sports stadiums can help to hold together a coalition of private businesses, charities, and public sector entities committed to the downtown area by providing a common factor for all to rally around.

If stadiums and sports teams can help to stabilize a downtown, and if those who receive the (largely) private benefits for the presence of a team can be made to pay for those benefits through financial technologies targeting such individuals, then

sports stadiums and arenas *may* have a role to play as a type of urban development technology.

## Conclusion

Recent times have witnessed the use of sports stadiums as a force for urban redevelopment. Stadiums and professional sports teams are seen by some as being capable of restoring economic livelihood, social values, and communities. Yet, the ability of stadiums and professional sports to achieve such goals has proven limited, at best. Regardless, the costs of stadiums and the use of financial technologies to provide public subsidies have risen over time. Such technologies succeed because of (1) the importance of sports in everyday culture, (2) the belief that sports act as an “economic engine,” (3) the monopoly position of professional sports teams, and (4) the power of local politicians. While stadiums may not be a cure for economic problems, they *may*, under appropriate circumstances, serve as *part* of a strategy aimed at stabilizing urban areas if they are coupled with financial technologies focused on those individuals benefiting from the presence of the stadium and team.

Currently, the city in which I work, New York, is contemplating the subsidy of stadiums for the New York Mets, Yankees, and Jets. Serious work is also being done to attract the 2012 Summer Olympics. All of the financial technologies discussed above are under consideration as ways of enabling such subsidies. For instance, the construction of a stadium for the Jets (and Olympics) on the far West Side above the 30th Street railyard is being touted as a way to revitalize that portion of Manhattan. Members of city and state government trumpet this revitalization and push for the use of the requisite financial technologies to make such construction possible.

Yet, as this paper has shown, such infrastructures do not necessarily lead to economic growth. At best, the presence of a stadium may help to stabilize an area and keep employers from leaving that part of the city. In New York, the city must be careful to deploy those technologies that serve to fund the stadium without “fleeing” the public. It must also decide if such construction and use of financial technologies represent the optimal use of scarce city and state resources. For a city noted for moving at high speed, the best approach here may be to “hurry up and wait.”



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