

Do Economists Think Funding for a New NFL Stadium in the Local Community is Worthwhile?

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Abstract

Stadiums throughout sports are sacred to the athletes that play in them, the fans that watch them and are even landmarks for cities as a whole. Unfortunately, as time goes, sometimes things just get old and worn down, and in this case, these aforementioned stadiums need to be replaced with brand new ones to keep up with the times and create a safe environment for all. In most occasions, choosing the location is the easiest part. What most people don't know, however, is that the approval process for a new stadium takes months, even years and goes through many different governments. When funding for a stadium, owners must look into how the stadium will be paid for, how much money they will receive from the government, and most importantly, how much of the public's money they will need to fund these projects. Additionally, looking into the public's opinion on these new projects and how exactly the public's money helps fund the stadiums.

Introduction

The sports industry is one of the most profitable industries today. As of 2014, the sports market was bringing in a whopping \$60.5 billion dollars, and “is expected to reach \$73.5 billion by 2019” Heitner, D (2015, October 19) Retrieved from <https://www.forbes.com/sites/darrenheitner/2015/10/19/sports-industry-to-reach-73-5-billion-by-2019/#6469d28d1b4b>. For some, sports are just a hobby/way to keep fit but for a lot others, they are a way of life. Whether it be an athlete who used sports to help get themselves away from the struggles of life, or a fan who grew up watching their favorite team and going to games with friends/family, sports has an impact on people in every country throughout the world.

One thing not to be taken for granted is how a sports team can really unite a city/state, even through its toughest times. The city of New Orleans faced one of the worst disasters of all time in dealing with Hurricane Katrina, which still to this day affects many people. Yet through all that had happened, the love for their team (the New Orleans Saints) kept them going strong through a tough time. The stadium in which the Saints play (The Mercedes-Benz Superdome) was home to thousands of people for months, and when the path started to clear and people were allowed to venture back out into the city, football season was just getting ready to begin and the Saints single-handedly brought the city of New Orleans together in what is considered one of the most iconic games in football history.

Thesis Statement and Research Questions

So there's no doubt that sports teams can have long-lasting effects on the community. The question is, how is the local community affected when a new stadium is to be built for their home team? Are people open to an upgrade or would they rather spend their money elsewhere? The answer to both those questions are both 50-50 toss-ups. My thesis statement is taxpayers would rather spend their money to help improve the community directly rather than help fund for a new stadium. For outsiders looking in, a new stadium seems like a great idea. It looks like a team is attempting to upgrade/modernize their respective playing field in hopes of generating a larger crowd and ultimately higher revenue, however it's much more than that. It's actually about rebuilding a city/state in hopes that this new project will bring in an excess amount of revenue through sponsorships, advertisements, tourists and many more. What most people don't know is that many people are affected by the new-stadium approval process and not always in a beneficial way. There is a huge debate over whether this is the best possible spending option for the community, and if spending the money elsewhere would best benefit the community. In most cases, taxpayers are affected the most and therefore have the largest opinion about implementing a new stadium into their community because they are required to help fund the project.

There are 5 groups of people who are involved in this process. The local community, the local government, the federal government, the team owners and the construction

company/workers who have various roles in constructing this new stadium. The process as a whole typically costs nearly a billion dollars, and even more in some cases.

Review of Literature

Stadium Subsidy

When funding for a new stadium, team owners look to see if they will receive a stadium subsidy for their project. Stadium subsidies are a huge deciding factor in how a stadium will be funded for. In simple terms, stadium subsidies are basically financial aid for stadiums to be built that will eventually have to be paid back to the government. They are loans provided to sports franchises which are usually used to aid in construction payment or to assist in renovation of a venue. This number has been very inconsistent over the past 30 years, however the public funding percentages have been relatively low in recent years.

NFL STADIUM FUNDING INFORMATION

Stadium/Team	Team	Year Opened	Total Project Cost	Private Funding		Public Funding	
				Total Private	% of Total	Total Public	% of Total
San Francisco 49ers (Proposed)	San Francisco 49ers	2015	\$987.0	\$873.0	88%	\$114.0	12%
MetLife Stadium	Giants/Jets	2010	\$1,600.0	\$1,600.0	100%	\$0.0	0%
Cowboys Stadium	Dallas Cowboys	2009	\$1,194.0	\$750.0	63%	\$444.0	37%
Lucas Oil Stadium	Indianapolis Colts	2008	\$719.6	\$100.0	14%	\$619.6	86%
University of Phoenix Stadium	Arizona Cardinals	2006	\$455.0	\$147.0	32%	\$308.0	68%
Lincoln Financial Field	Philadelphia Eagles	2003	\$518.0	\$330.0	64%	\$188.0	36%
Soldier Field (renovation)	Chicago Bears	2003	\$587.0	\$200.0	34%	\$387.0	66%
Lambeau Field (renovation)	Green Bay Packers	2003	\$295.2	\$126.1	43%	\$169.1	57%
Gillette Stadium	New England Patriots	2002	\$412.0	\$340.0	83%	\$72.0	17%
Ford Field	Detroit Lions	2002	\$440.0	\$330.0	75%	\$110.0	25%
Reliant Stadium	Houston Texans	2002	\$474.0	\$185.0	39%	\$289.0	61%
CenturyLink Field	Seattle Seahawks	2002	\$461.3	\$161.0	35%	\$300.3	65%
Heinz Field	Pittsburgh Steelers	2001	\$280.8	\$109.2	39%	\$171.6	61%
Sports Authority Field at Mile High	Denver Broncos	2001	\$400.8	\$111.8	28%	\$289.0	72%
Paul Brown Stadium	Cincinnati Bengals	2000	\$449.8	\$25.0	6%	\$424.8	94%
LP Field	Tennessee Titans	1999	\$291.7	\$84.8	29%	\$206.9	71%
Cleveland Browns Stadium	Cleveland Browns	1999	\$271.0	\$71.0	26%	\$200.0	74%
M&T Bank Stadium	Baltimore Ravens	1998	\$226.0	\$22.4	10%	\$203.6	90%
Raymond James Stadium	Tampa Bay Buccaneers	1998	\$194.0	\$0.0	0%	\$194.0	100%
FedEx Field	Washington Redskins	1997	\$250.5	\$180.0	72%	\$70.5	28%
Average			\$525.4	\$287.3	44%	\$238.1	56%

As evident in the above photo, the average percentage the public has provided towards these stadiums over the past 30 years is 55%, however that number has dropped to roughly 16% over the past 9 years (dating back to 2009). A large part of this was because of MetLife Stadium, home of the New York Giants and New York Jets. The teams joined together to the “MetLife Stadium Company LLC” to help build and operate the stadium. This is a privately funded organization amongst the teams’ owners where the bill is split, thus making it easier for each owner to help fund this project, and ultimately require no assistance from the public. I personally appreciated this as both a taxpayer, and a consistent game-attendant because

neither myself nor my parents have seen increase in our taxes. MetLife Stadium makes up for this by having the 11th highest concession prices and in 2016, were recorded as having the highest average ticket price throughout the NFL. Their overview statement is “MetLife Stadium Company, LLC operates a stadium that hosts football leagues. MetLife Stadium Company, LLC was formerly known as New Meadowlands Stadium Company, LLC. The company was founded in 2007 and is based in East Rutherford, New Jersey” Retrieved from <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=106592413>. Stadium subsidies are crucial in the stadium construction process because the more money that is allotted to owners to help fund their new stadium, the less stress there is on owners to look for public assistance and ultimately less money spent by the public.

Tax Reform

The Tax Reform Act of 1986 also plays a huge role throughout the funding process. Ameet Sachdev, a business reporter for the Chicago Tribune sat down with Dennis Zimmerman, a retired economist to discuss how exactly the stadium financing process was impacted. Zimmerman, who used to work at the Congressional budget office says that “Before 1986, professional teams generally repaid publicly financed stadium debt through revenue generated by the facility, such as tickets, parking and concessions” Sachdev, A. (2018, September 5) Retrieved from <https://www.chicagotribune.com/business/ct-xpm-2010-11-23-ct-biz-1123-chicago-law-20101122-story.html>. This to me seems unethical, as they (the team that inhabits the stadium) would basically be relying on fan loyalty and profit as a means of reparation. This

is a problem because if a team is consistently underperforming, they will see a decline in attendance and ultimately profit which can hinder the reparation process. "Such user fees met little resistance from taxpayers because general taxes were not being levied to pay for the stadium" Sachdev, A. (2018, September 5) Retrieved from <https://www.chicagotribune.com/business/ct-xpm-2010-11-23-ct-biz-1123-chicago-law-20101122-story.html>. This is part of the reason stadium financing has changed so much over the past 30 years, is because the only ethical way of receiving public assistance is to add an increase to their taxes. It is unfortunate because it forces the public to fork over more money to the government for something they may not necessarily believe in. Sauer adds that "The 1986 Tax Reform Act placed limits on bonds issued for private activities by determining that no more than 10 percent of the debt service can be repaid by revenues from the project itself. Congress also removed sports facilities from the list of projects that remain eligible for tax-exempt financing. Yet stadiums still manage to qualify for the tax exemption. A loophole allows owners and host cities to push 90 percent of the construction costs onto taxpayers. In other words, public revenues such as sales taxes, lottery proceeds or amusement taxes must be used to repay the bulk of debt. And owners pocket the stadium revenues" Sauer, S. (2010, November 23) Retrieved from <http://thesportseconomist.com/2010/11/23/1986-tax-reform-and-stadium-finance/>. Naturally, this could create a huge problem because this could result in a raise in taxes or just generally more money spent by the public, who again, may not even support the idea of a new stadium in the first place.

Methods

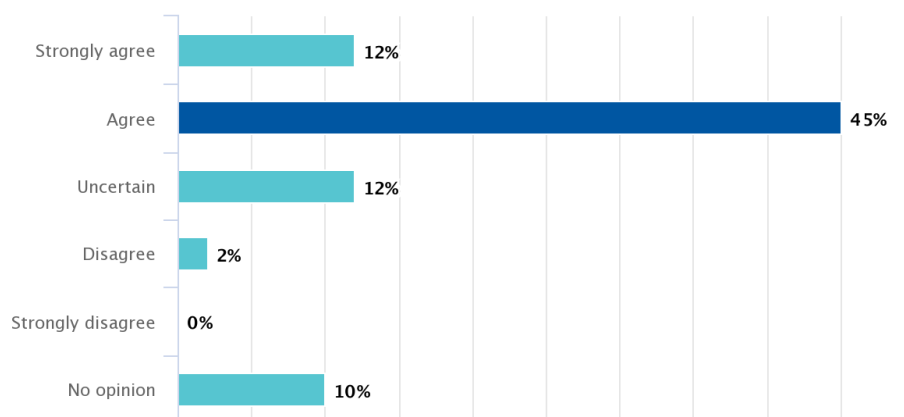
To assist in my research, I looked into 2 studies that supported my data. The first was done by Jeff Cockrell, a Deputy Editor at the Chicago Booth Review. He ran a survey in which his research question was “do the economic benefits generated by these facilities—via increased tourism, for example—justify the costs to the public?” He and his colleagues at the “Chicago Booth’s [Initiative on Global Markets](#) put that question to its [US Economic Experts Panel](#)”

Cockrell, J. (2017, February 1) Retrieved from

<http://review.chicagobooth.edu/economics/2017/article/what-economists-think-about-public-financing-sports-stadiums>.

Providing state and local subsidies to build stadiums for professional sports teams is likely to cost the relevant taxpayers more than any local economic benefits that are generated.

Responses as percentage of full IGM Economic Experts Panel



As shown by the graph, 57% of the panel agreed that the cost of funding for new stadiums outweighs the potential long-term economic business. Interestingly enough, only 2% disagreed on this, and think that the benefits will outweigh the cost. This, although somewhat surprising completely makes sense to me, and supports my thesis statement. There is no doubt

that there will be benefits one way or another. It's hard, however, for those who don't consider themselves sports fans to completely see how exactly these projects will be beneficial in the long-run, especially when their taxes are affected. I do wish, however, that they ran this same study but had 2 different test groups, a group of avid sports fan (who are also taxpayers) and a group of non-sports fans who are taxpayers. I think this could better put into perspective how people really feel about assisting in funding for these stadiums. I'd assume the majority of the sports-fan group would be for funding the stadium, but one cannot be sure unless the study were to be done. As for the other group, I'd make sure to be specific about what the benefits of constructing a new stadium will be but I'd also make sure they understood that their taxes would be affected in one way or another. I'd ultimately expect the majority of that group to be against funding that stadium and would rather spend the money elsewhere to help benefit the community.

Cockrell also wrote a short piece on 2 specific NFL teams (Atlanta Falcons and San Diego Chargers), both of whom had recently developed a plan to construct a new stadium, however each had different results due to public (dis)approval on funding a new stadium. In the case of the Atlanta Falcons, the public agreed to assist in the funding for a new stadium "they'll be able to thank \$200 million in public bonds that helped with the construction" Cockrell, J. (2017, February 1) Retrieved from <http://review.chicagobooth.edu/economics/2017/article/what-economists-think-about-public-financing-sports-stadiums>. On the contrary, the city of San Diego "rejected a proposal in November to raise hotel taxes in order to contribute \$350 million to a new stadium for their (now formerly) local football team, the Chargers" Cockrell, J. (2017, February 1) Retrieved from <http://review.chicagobooth.edu/economics/2017/article/what->

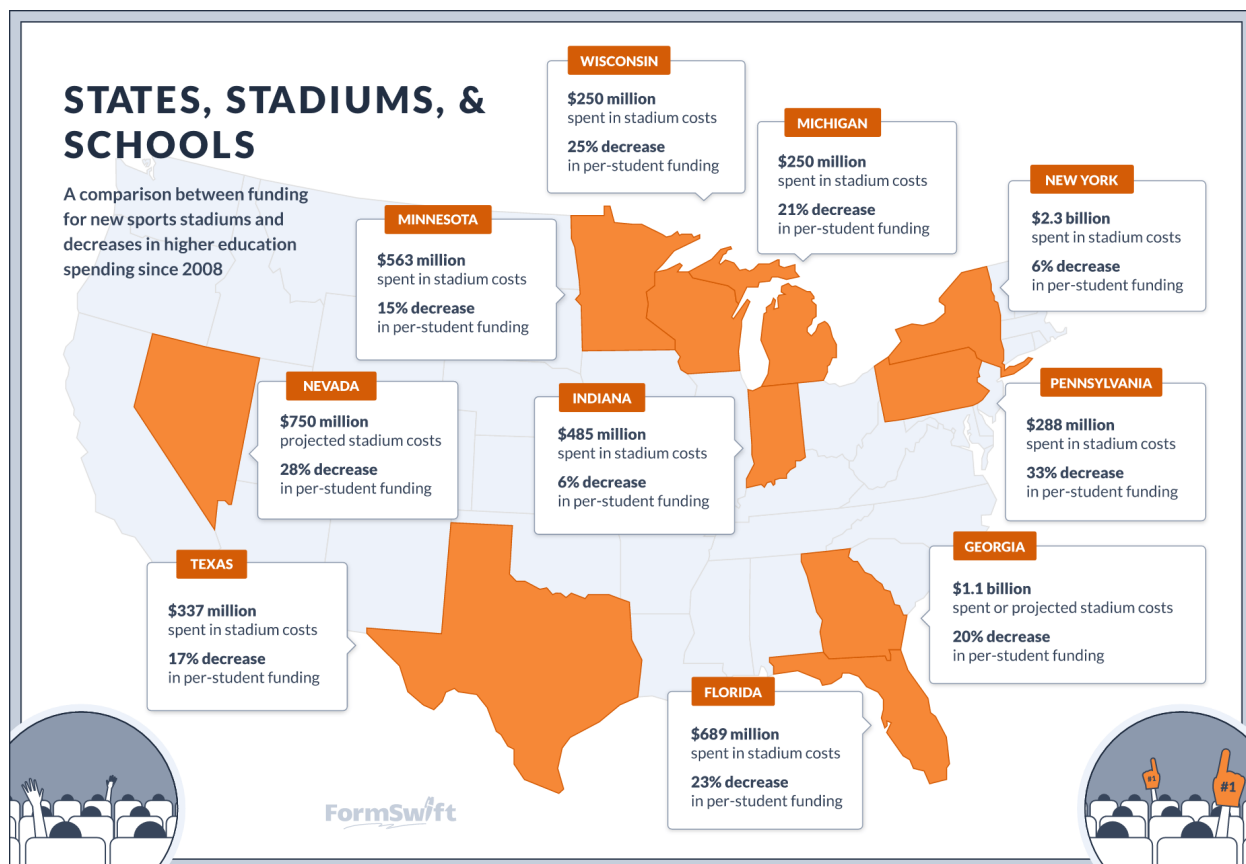
[economists-think-about-public-financing-sports-stadiums](#). The voting for these 2 projects took place in 2016, and since then, the Falcons have moved into a new stadium in downtown Atlanta, and the Chargers have relocated from San Diego to Los Angeles. As an avid sports fan, I agree more with the city of Atlanta. I feel as if sports contain a greater intangible value that make spending worthwhile, so I would personally have no problem with assisting in the funding of a new stadium.

The second study I researched was one done by Robert Whaples, a professor of economics at Wake Forest. He sent a questionnaire to over 200 Ph.D economists that, although subsidizing sports stadiums was only a sub-topic, it asked each economist if they were for or against eliminating subsidies to professional sports franchises. Interestingly enough, 85% of economists were for eliminating these subsidies. As one-sided as this resulted, I am not all that surprised by these results. This is because economists tend to look at financial decisions from an economic standpoint as opposed to a moral standpoint (the standpoint of an avid fan like myself who would be willing to pay because of fan-loyalty).

Analysis

Scott A. Wolla, a senior economic education specialist at the Federal Reserve Bank of St. Louis writes that opportunity costs should be highly considered too when deciding whether or not a stadium should be funded. He says that “An economist might ask, of all the things my city

could do with \$500 million, is a sports stadium subsidy my best option?. Government can choose to spend taxpayer money on a variety of things: roads, bridges, airports, police, education, environmental improvements, parks, and walking paths, just to name a few—all of which have benefits for society.” Economists often suggest options that increase **productivity** and see this spending as **investment**. For example, government spending on infrastructure (e.g., airports, highways, and bridges) could increase productivity because it reduces the cost (in time and money) of transporting goods and people from one place to another”. In addition to this, the money could be used to help improve higher education”. Wolla, S.A. (2017, May) Retrieved from <https://research.stlouisfed.org/publications/page1-econ/2017-05-01/the-economics-of-subsidizing-sports-stadiums/>. These claims help support my thesis by providing a specific example on why spending directly to the community would be more beneficial. Members of the local community would be more likely to assist the funding of a project if the money was going somewhere they believe needed it more.



This photo depicts 10 states who have all financed a sports stadium and have seen a decrease in per-student funding since 2008. In all cases, each state spent a minimum of \$250 million in stadium costs (a couple even reaching the billions) and have each seen a minimum of 6% decrease in per-student funding. This supports my thesis by showing a specific area that has been receiving fewer funds. Education is a driving force in today's society, and is a cause that many people (especially parents) will always support and will therefore be willing to assist in per-student funding. There is, however, a general misconception that sports are a huge driving force in our economy today. Wolla adds into his article that "Sports economist Michael Leeds suggests that professional sports have very little economic impact, noting that a baseball team (with 81 regular-season home games per year) has about the same impact on a community as a

midsize department store. His research suggests that if every professional sports team in Chicago (including the Cubs, White Sox, Bears, Bulls, and Blackhawks) were to suddenly disappear, the economic impact on Chicago would be a fraction of 1 percent". Wolla, S. (2017, May) Retrieved from <https://research.stlouisfed.org/publications/page1-econ/2017-05-01/the-economics-of-subsidizing-sports-stadiums/>

Personal Reflection

I learned a lot throughout this research experience. Having been an avid sports fan my entire life, I always see every sports-related opportunity as more beneficial than not, however this study helped put me into perspective. The two major things I learned were that sports have a lot less of an impact on the national market than I expected, and that more people are opposed to the construction of a new stadium in their community than that who are for it. To me, the idea of creating new jobs and modernizing your community with this project makes the spending worthwhile because this creates a new tourist attraction, but that's also my sports-fan side who enjoys visiting new stadiums and loves watching professional sports teams modernizing their culture. This relates to my education at Purchase as an economics major/minor because this helped me get an in-depth look at how the economy is affected as a whole as opposed to just sports fans. Also, this helped me understand that community development is more important than trying to profit from a certain group of people (in this case sports fans).

Conclusion

With all this research, it is clear that although the construction of a new stadium would be somewhat beneficial, it would be more beneficial to spend that money elsewhere within the city because the economy would directly have a greater benefit. Constructing a new stadium is a huge risk, and is reliant on the public to trust that the stadium will make their money back. New jobs would be created but a larger number of homeowners in the area would see an increase in their taxes and that may not be the top choice of many of these homeowners, especially if they are opposed to the stadium. The only potential long-term benefit(s) to the community as a whole is, if the stadium keeps to their promise and greatly exceeds their revenue over the money spent, then the public could eventually see their taxes decrease to what it once was and potentially lower, as well as see an increase to the value to their property/land. Also, local business such as restaurants, parking lots and sporting goods stores may see in an increase in revenue.

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