

Stadiums and Subsidies: Home Run for Wealthy Team Owners, Strike-out for Taxpayers

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By Andrew Moylan

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Introduction

Over the next several years, residents of New York City will be compelled to cough up a minimum of more than \$200 million¹ in subsidies to help build a new baseball stadium for the beloved, reviled, and always newsworthy New York Yankees. This story is different not because ordinary taxpayers are shouldering a significant burden for a franchise worth more than \$1 billion² – unfortunately, that’s all too common these days. The dubious distinction is that taxpayers’ \$200 million will cover less than 20 percent of the total cost of the stadium. Not only is it remarkable that a stadium costs so much, but it’s almost as remarkable that taxpayers aren’t footing a larger portion of the bill. Just as many of their players have set records on the field, the Yankee brass is setting one off the field: They are constructing what could be America’s first billion-dollar stadium.

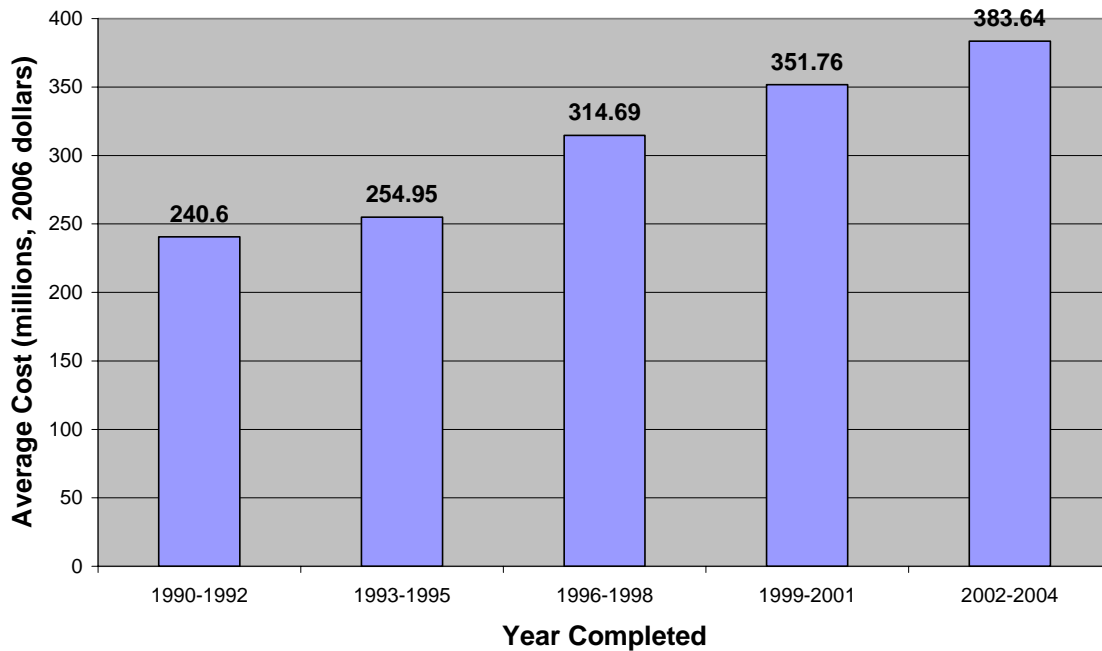
With estimates ranging as high as \$1.3 billion³, the new Yankee Stadium is expected to be the most expensive ever built on U.S. soil, both in real and inflation-adjusted terms. That is, at least until the next American stadium is designed and finished. However, Yankee Stadium isn’t exactly an unthinkable anomaly. Though substantially more expensive than most, it is but the high end of a disturbing trend toward enormously expensive, gold-plated stadium plans. The National Football League’s (NFL) San Diego Chargers, a franchise worth a “mere” \$678 million⁴, recently announced that estimated construction costs for the team’s new home have *doubled* from the original number of \$400 million in 2002 to \$800 million today⁵. Meanwhile, in the nation’s capital of Washington, D.C., Major League Baseball’s (MLB) Washington Nationals franchise (worth some \$440 million⁶) is building a \$700 million stadium⁷.

As gross *stadium* construction costs rise rapidly, so will gross *taxpayer* costs. As mentioned above, New Yorkers will pony up more than \$200 million, San Diegans roughly \$400 million, and D.C. residents about \$611 million. Just 20 years ago, that large a taxpayer subsidy would have been virtually unimaginable. In fact, Louisiana’s famous Superdome, where the NFL’s New Orleans Saints play, cost more than \$500 million in 2006 dollars to build in 1975. At the time, the stadium was thought to be an extravagant outlier in a world where stadiums seldom cost more than \$200 million in 2006 dollars. As Roger Noll and Andrew Zimbalist note in their seminal 1997 work on the subject, *Sports, Jobs, and Taxes*, “For a long while, this project stood out as a wild anomaly. Today, it would fit nicely in the upper range of standard experience.”⁸ The Superdome, 100 percent financed by taxpayers, was indeed a harbinger of things to come.

Virtually every economic study of the issue has found that publicly funded stadiums are, at best, an inefficient investment of taxpayer dollars for the meager benefits produced and, at worst, massive payments to rich team owners and players at the expense of ordinary taxpayers. Much of the spending attracted by new stadiums simply is shifted from entertainment spending that already existed in other venues, such as theaters and restaurants. Furthermore, large portions of the subsidy leave the city in the pockets of owners and players who live in far-flung suburbs. And finally, proponents of publicly funded stadiums often point to jobs “created” by stadiums while completely overlooking the destructive effects that higher taxes have on job growth and economic performance elsewhere in the regional economy.

But rather than exhaustively rehashing the economic consensus, this paper seeks to explore rising stadium costs and their relationship to taxpayer subsidies. It focuses on 53 sports facilities built between 1990 and 2004 for use in one of the three most popular American leagues: MLB, the NFL, and the National Basketball Association (NBA). Unless otherwise noted, all dollar amounts are inflation-adjusted to 2006 levels from the date of the stadium’s completion and all information is drawn from public reports.

Stadium Cost Over Time



As the chart above shows, stadium costs have escalated substantially since 1990. For stadiums completed from 1990 to 1992, the average cost was “just” \$240.6 million in 2006 dollars. For those completed from 2002 to 2004, that number was \$383.64 million, constituting an inflation-adjusted increase of nearly 60 percent in scarcely more than a decade.

The most commonly cited justifications for such price hikes include rising costs of construction materials, insurance, and contractor rates. These arguments, however, have little merit. Though prices for inputs like iron and steel have increased in the last two or three years, they were relatively low and stable for the 15-year period of this study.⁹ The minor variations

that did occur in commodity prices have no apparent correlation to stadium prices. In fact, iron and steel prices fell from 1995 to 2002 – a period when stadium costs escalated significantly.

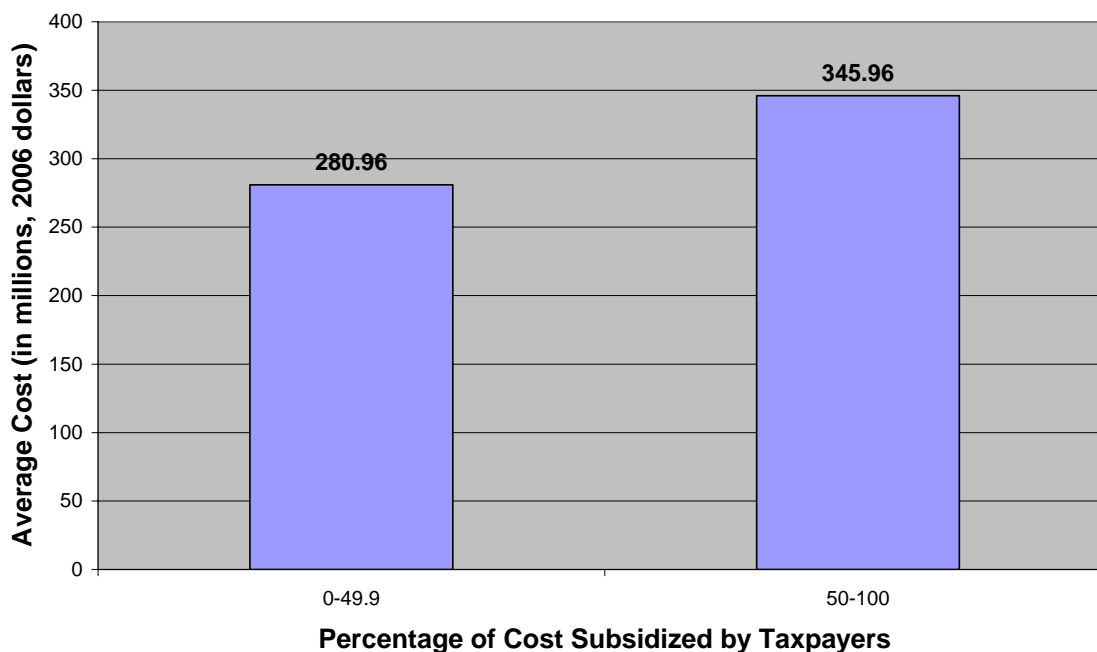
Insurance rates also are unlikely culprits for rising costs. Most of the major events in recent history that have contributed to higher insurance rates either fall outside the time period of the study or do nothing to alter the overall trend in stadium costs. For example, the September 11, 2001 terrorist attacks dramatically heightened security concerns at large sporting events. Some stadiums surely suffer increased insurance costs as a result, but even if we assume that hikes in insurance raise construction costs, the results are not radically different. The inflation-adjusted increase in stadium costs from 1990 to 2001 – before the September 11 attacks – still would be a whopping 46 percent. And any insurance increases as a result of Hurricane Katrina, based on risk of damage from natural disasters, would have no bearing on the data in this study because that storm occurred in 2005.

The increase in contractor rates is substantially more difficult to verify. It stands to reason that factors such as a housing boom, which we saw peak in 2005-2006, would increase the demand for contractors and thus drive their prices up. However, the 15-year span of the study contains periods of both boom and bust, even as stadium costs consistently kept rising. Though builders and bureaucrats are not to blame for every aspect of construction that has led to colossal expenses, the entirety of inflated stadium prices can't be attributed to any of the aforementioned factors alone, either.

What, then, is the most likely reason for these problematic pricetags? Fancier stadiums. Standard fare for the modern-day stadium includes ultra-luxury suites, complete with leather couches and flat-screen televisions galore. Several new stadiums have lavish restaurants and bars on-site to entertain high-class clientele. Many include “club-level” seating, which are specialized suites located closer to the action. This seating not only drives up construction costs but has the effect of displacing regular accommodations, meaning higher ticket prices for most fans. In a pernicious game of “keeping up with the Joneses”, pricey features like these have sent costs skyrocketing with taxpayers being taken along for the ride.

Having established that stadium construction costs are escalating dramatically, we now turn to an examination of the role that taxpayer subsidies play.

Stadium Cost at Given Subsidy Level



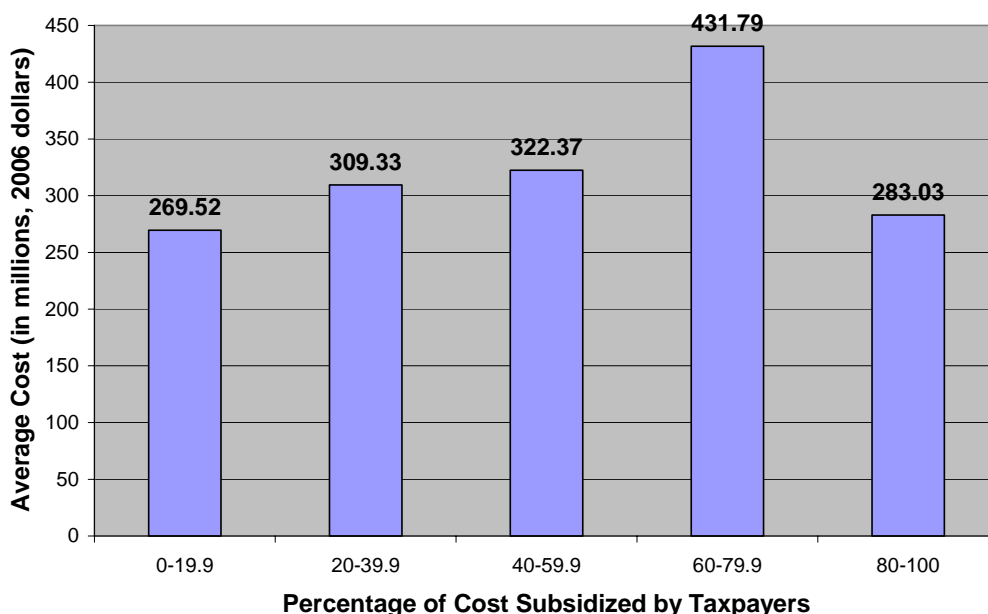
As this chart clearly shows, stadiums that were constructed with 50 percent or more in taxpayer subsidies were \$65 million more expensive on average than those constructed with less than 50 percent in subsidies. Why is that the case? In one word: incentives.

The incentives that team owners and private financiers have are very different from the incentives that local governments and other bureaucrats have. Team owners have an interest, even an obligation, to maximize profits. As such, they tend to be more vigilant about controlling costs on stadium construction. Government bureaucrats, on the other hand, are often more concerned with reelection prospects and PR plaudits than with cost containment. The data depicted above illustrates that price tags are higher when government shoulders a larger burden than private financiers.

So it appears as though higher subsidies generally are associated with higher costs, but to what extent is that true? And, what level of subsidy correlates with the highest cost? The following chart examines these questions, by presenting figures by quintile.

Stadium Cost at Given Subsidy Level

Further Breakdown



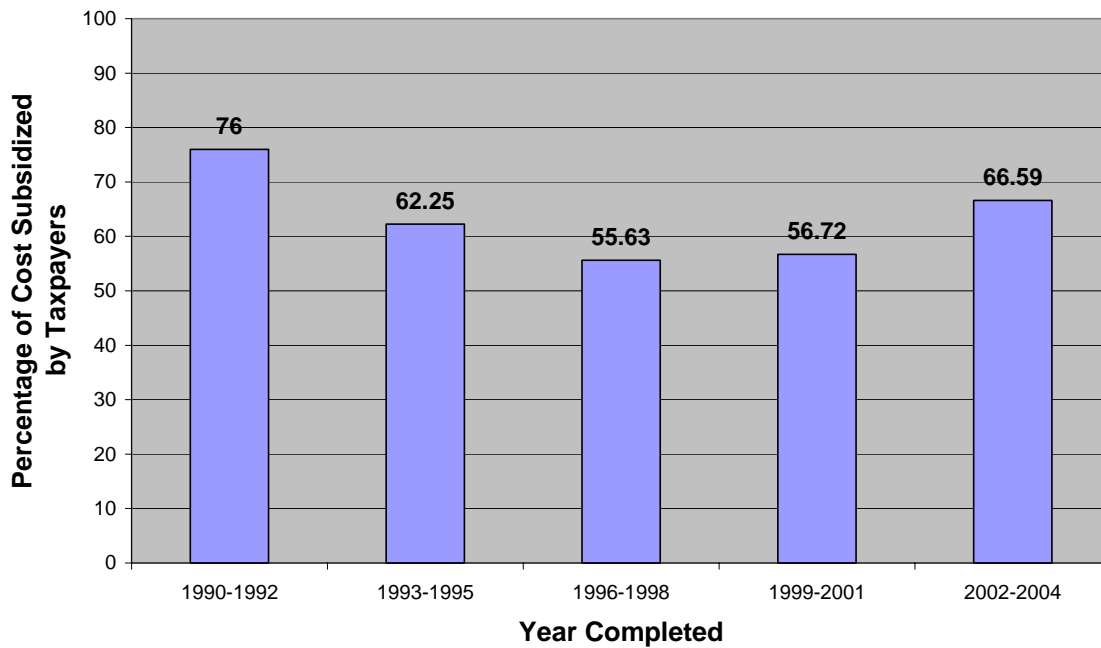
As the chart above shows, the breakdown of the relationship between taxpayer subsidy and stadium cost is an interesting one. There is a bell curve of sorts, though lopsided, which shows that the most expensive stadiums were subsidized between 60 and 79.9 percent with cost drop-offs in either direction.

From a behavioral standpoint, this makes sense. When virtually all of the costs are borne by one entity, incentives toward cost containment are high. On the far left side of the graph, private financiers have large incentives to keep costs low and maximize profits. On the far right side of the graph, governments have large incentives to keep costs low and minimize public outrage over such expenditures (thus protecting their fundamental interest, reelection prospects). However, when private and public entities share substantial portions of the price tag, the equation is no longer as tidy because the resulting savings – and risks – are shared. When savings (and blame for a lack thereof) are shared, there is less accountability for construction dollars vested with either entity.

As detailed previously, the most expensive stadiums were built with 60 to 79.9 percent in subsidies. Those stadiums averaged a cost of \$431.79 million, eclipsing any other quintile by nearly \$110 million. This comprises the “sweet spot” for escalating stadium costs (or “sour spot” for taxpayers). A wider sweet spot, though not shown on the graph, occurs between 50 and 79.9 percent subsidization. Spending on stadiums within that range averaged a staggering \$413.12 million.

Stadiums clearly are getting significantly more expensive and those that receive higher subsidies cost even more, but how have subsidies changed over time?

Subsidy Percentage Over Time



As this chart illustrates, subsidy levels dipped until the mid-to-late 1990s, when they began to rise again. There are several potential explanations for this.

Perhaps the most likely reason is that it takes several years for the typical stadium to navigate the process from planning to completion. As such, subsidy levels are often set two to five years before the stadium is completed. Thus, a stadium that is planned during difficult economic times might get a relatively modest subsidy when compared with projects planned during economic booms. When cities and counties have budget deficits, one of the first costs to be deferred are large capital outlays. Budget problems during tough years may have led governments to provide fewer subsidies for stadium projects. For the purposes of this study, those lower subsidies wouldn't "appear" until the projects were completed several years later.

One example of this phenomenon can be seen between 1990 and 1992, when the United States experienced an economic slowdown and job losses that led to revenue shortfalls among many cities and counties. These shortfalls in turn may have led to lower subsidies for stadium projects than they might otherwise have received in better economic times. When looking at the data, subsidy levels drop for stadiums completed between 1994 and 1997, most of which were planned during the earlier part of the decade. When the economy began to turn around again in 1994, subsidy levels rose, accounting for the steady uptick shown in the chart from about 1997 onward.

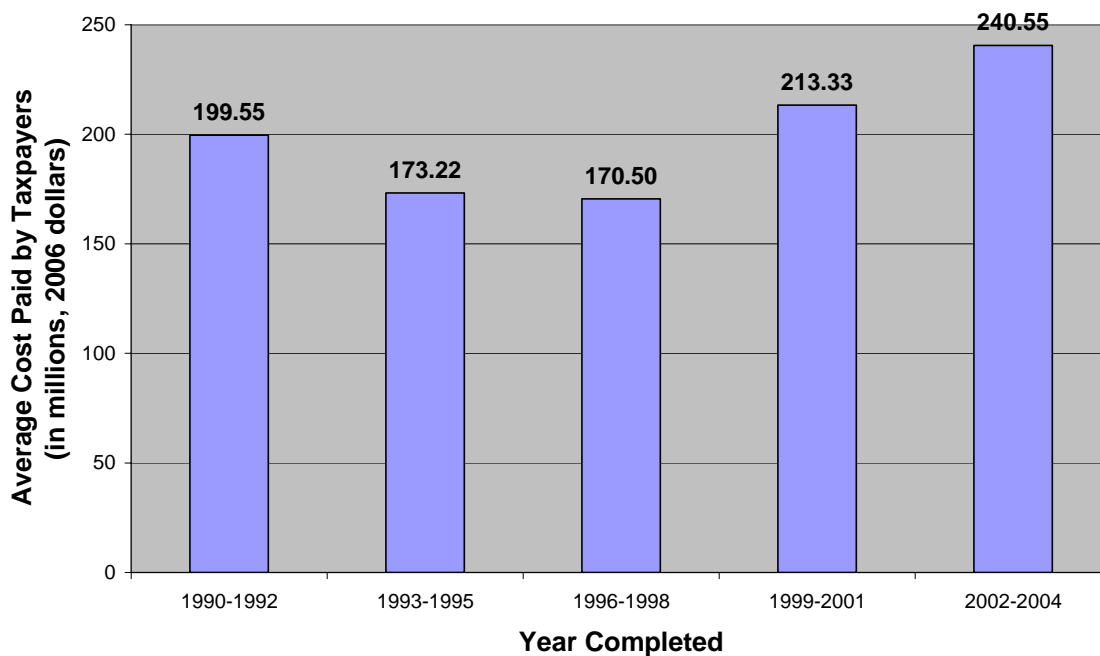
Another possibility is that the electoral successes of conservatives in the 1994 elections made it more difficult to secure large subsidies. Riding a wave of support for limited government, the so-called "Republican Revolution" swept Democrats out of power in many instances across the country. In addition to gaining 58 seats in the U.S. House of Representatives

and eight seats in the U.S. Senate, Republicans had tremendous successes on the state level. They picked up 12 governorships and 472 legislative seats nationwide, wresting control of 20 state legislatures from the Democratic Party. This marked shift towards conservative politics may have led to a less hospitable climate for wealthy teams asking for taxpayer handouts (even though both parties have been guilty of numerous stadium boondoggles over the years).

In addition to the period covered by this study, some anecdotes from 2004 and beyond suggest that subsidy levels still are increasing. For example, MLB's Minnesota Twins recently broke ground on a \$522 million stadium, 75 percent of which will be funded by taxpayers. The NFL's Indianapolis Colts are building a new stadium at a cost of \$675 million, 85 percent of which will be funded by taxpayers. Their nearby rivals, the Minnesota Vikings, have been trying for years to get the Minnesota Legislature to approve taxpayer funding for a \$1 billion downtown Minneapolis stadium.

Finally, we turn to an examination of total taxpayer costs per stadium over time.

Average Taxpayer Cost Per Stadium Over Time



This chart shows a similar trend to that of the “Subsidy Percentage Over Time” chart. However, the increase from the low point of 1996-1998 to 2002-2004 is more pronounced. Subsidy percentage increased 19 percent over that six-year period, while the total subsidy amount increased more than 41 percent. As discussed previously, the lag time from the beginning of a stadium plan and its completion, when combined with economic factors, could help explain the drop through the mid-1990s. But this shows a clearly rising trend from 1996 on.

Though all the previously mentioned factors are indeed important, the one number that taxpayers likely care most about is the gross amount coming from their pockets, which has been steadily increasing since the middle part of the last decade and shows little sign of slowing.

The Future

The NBA's San Antonio Spurs provide us with perhaps the best example of stadium funding's future. In 1993, the Alamodome was completed with the Spurs as its primary tenant. Construction added up to nearly \$258 million in 2006 dollars – every penny of which came from taxpayers. Despite the fact that the stadium was brand new, Spurs management maintained all along that it was a temporary home. They were unhappy about the stadium's sightlines, capacity metrics, and lack of luxury features. As a result of this agitation (and implicit threats to move the team), they succeeded in getting a referendum for a new stadium on the 1999 ballot a mere *six years* after completion of their new facility.

The Spurs won their vote and another stadium was authorized. By 2002, the Spurs had moved into what was then called the SBC Center (now the AT&T Center). And yet, a mere five years into *that* engagement, team management already is agitating for more taxpayer dollars. The *San Antonio Express-News* reports that the team wants to extend the “venue tax” that funds the arena so that various upgrades can be bankrolled. That tax otherwise would expire when the stadium is paid off, sometime between 2009 and 2012. Extending it would pluck more money out of taxpayers' pockets in order to fund the San Antonio Spurs' \$164 million wish list for projects.

Despite the Spurs' estimated value of \$350 million¹⁰ and owner Peter Holt's net worth of \$80 million¹¹ (incredibly, making him one of the “poorer” NBA owners), the team doesn't want to reach into its own pockets for the upgrades. The arena's general manager John Sparks recently said existing revenues were not enough to pay for “the ‘wow’ stuff, the great things we need to have.”¹²

And therein lies the rub. Teams across the country expect taxpayers to cough up millions of dollars so that they can have “the ‘wow’ stuff” that fattens their checkbooks. Even stadiums that are but a few years old are no longer good enough. The Spurs also claim that, without the additional taxpayer dollars, they will be unable to fund salaries for a winning team. Decades of easy subsidies and ever-more palatial stadiums have bred a dependence on taxpayers that is quite unseemly, considering the millions of dollars floating around professional sports.

Another growing, and disturbing, trend is the movement toward taxpayer-funded entertainment complexes that include stadiums. Perhaps these schemes are motivated by recognition that the economic verdict is in for publicly financed stadiums: They are inefficient at best and hugely wasteful at worst. So some owners are now trying to bury stadium projects in elaborate redevelopment plans to deflect some of those arguments.

One example of such a plan can be found in the NBA's New Jersey Nets. The Nets, a franchise worth \$271 million¹³, currently play in Continental Airlines Arena, located in the “Meadowlands” in East Rutherford, N.J. The Nets' new owner, Bruce Ratner, who is worth

upwards of \$400 million¹⁴, has proposed moving them to a new stadium to be built in Brooklyn, N.Y.

But instead of simply building a stadium and asking for public subsidies, Ratner proposed a massive \$4.2 billion redevelopment plan that makes the stadium only a minor portion of the overall project.¹⁵ Subsidies are estimated to be more than \$350 million already, and history tells us that the only direction for these is up.

Stadium costs are skyrocketing, heavily subsidized stadiums are more expensive than others, and subsidies (in terms of percentage of total cost and sheer dollar amounts) are shooting straight up. The only way for taxpayers to stop this unaffordable spiral is by coming together to say no to wealthy team owners asking for public dollars. Unfortunately, our legislators seem to still buy into the “voodoo economics” of stadium funding, while taxpayers get to “take one for the team.”

About the Author

Andrew Moylan is Government Affairs Manager for the 362,000-member National Taxpayers Union, a non-profit, non-partisan organization founded in 1969 to work for lower taxes, smaller government, and economic freedom at all levels. For further information, visit www.ntu.org.

Notes

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¹¹ "2004-2005 NBA Salary Report," *USA Today*, May 20, 2005. <http://www.usatoday.com/sports/basketball/nba/2005-salary-owners.htm>.

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