



June 9, 2003

WOULD A PUBLICLY FINANCED BASEBALL STADIUM PAY OFF FOR DC? Economic Research Suggests the Answer Is “No”

By Ed Lazere

DC leaders are trying to bring a Major League Baseball team back to the city. The league has expressed interest in relocating the Montreal Expos, and three jurisdictions — the District, Northern Virginia and Portland, Oregon — are vying to host the team if it moves. This is an exciting prospect for many residents of the DC metropolitan area, which has not had a major league team for more than 30 years.

As part of the effort to bring a team to DC, Mayor Williams has proposed spending public funds to help build a new baseball stadium and to renovate RFK stadium for use while a new stadium is being built. The mayor's \$339 million financing package, which is larger than the amounts offered by officials in both Northern Virginia and Portland, has been introduced in legislation to the DC Council. The Council must approve any stadium financing deal.

The mayor claims that this substantial investment is warranted because it will bring significant economic benefits — in terms of new jobs, income growth, and increases in tax revenues — in addition to boosting civic pride. Unfortunately, these claims — which are common from leaders of cities seeking to attract a professional sports team — are not backed up by research on the impact of baseball teams. In fact, economic studies show that baseball stadiums do not promote economic development and that public subsidies for stadium construction do not "pay for themselves" by generating increased tax revenues.

- **Baseball would not create good jobs for DC residents.** Most of the jobs directly created by stadiums are day-of-game jobs, such as in concessions, which are part-time and have low pay and limited benefits. Moreover, the Williams administration estimates only about one-third of the jobs resulting from a team would go to DC residents. The \$339 million subsidy would create no more than 380 jobs for DC residents, which means the cost to the city for each job filled by a DC resident would be \$900,000.
- **Baseball does not boost the local economy.** Andrew Zimbalist, a leading sports economist, wrote earlier this year: “There are very few fields of economic research that produce unanimous agreement. Yet every independent economic analysis of the impact of stadiums has found no predictable positive effect on

output or employment. Some studies have even concluded that there is a possible negative impact.”¹ This perhaps surprising finding largely reflects the fact that families and individuals who spend money to attend a baseball game spend less on other forms of entertainment than they would in the absence of a stadium.

- **A baseball stadium is unlikely to spur economic development in the area around it.** Economic research has found that sports stadiums, which are not in use most days of the year, are not a major catalyst for development in surrounding areas. While some DC officials point to the MCI Center and give it credit for the resurgence of downtown, it is more reasonable to see the downtown housing and commercial boom as part of the District’s overall economic resurgence, which has occurred in many areas of the city.

Because stadiums don’t contribute strongly to economic growth, public subsidies for stadium construction typically do not generate enough new tax revenue to offset the construction costs.

- **Publicly financed stadiums do not pay for themselves.** A study of 25 stadiums built between 1978 and 1992 found that none of them generated a net increase in tax revenue for the host city. Even Baltimore’s Camden Yards, which is considered a highly successful stadium, is a net loser for the state.²
- **A DC baseball stadium would have serious “opportunity costs.”** Mayor Williams argues that the proposed \$339 million subsidy for a baseball stadium would not affect funding for other city services, because the funds would come largely from taxes generated at the stadium. In reality, however, the stadium financing plan would have significant opportunity costs for the District. Under the mayor's plan, the stadium would be exempt from property taxes, and nearly all taxes generated at the stadium would be used to pay for construction costs. This means that the stadium would produce little or no tax revenue for the District's general fund. Because the stadium is likely to be placed in a “principal growth area” of the city, it would displace other economic activity that could result in new tax revenues for the city.

In short, a publicly financed baseball stadium would not contribute substantially to DC’s economic growth, and it would have real costs that would limit resources for other public services.

Finally, it is important to note that the proposal to devote \$339 million in District funds to a new baseball stadium largely results from Major League Baseball's expectation that a host city will pay for most of the costs of a state-of-the-art stadium. MLB operates as a monopoly, which allows it to restrict the number of franchises and to withhold teams from viable host cities, such as Washington. The league then is able to negotiate favorable stadium deals with cities that are eager to host a team, even if the public subsidy is not warranted on economic grounds.

Given the District’s current fiscal crisis — and its ongoing struggles to meet basic service needs — a baseball stadium does not seem to be a wise investment of hundreds of millions of dollars of public funds. The District could develop alternate proposals that would show its support for a baseball team without devoting such a large amount of public funds. An alternate proposal could be guided by the following principles.

- **A new stadium should be built primarily with private funds.** Residents of other communities have rejected heavy public financing for new stadiums. In San Francisco, the team owner agreed to pay most of the costs of a new stadium after three voter referenda for public financing were rejected. The District can show its support for a baseball team through more targeted and limited investments.
- **A new stadium and team should generate direct tax benefits for the District.** A new stadium should not be exempted from property taxes, and basic tax revenues generated from stadium activity should flow into the District’s general fund, rather than being used to pay for stadium construction. This would help ensure that a baseball team provides some fiscal benefit to the District.
- **Any public financing for stadium construction should come from special fees or taxes on those who benefit directly.** The District could support stadium construction through additional taxes on those who attend events at the stadium. This could include, for example, a surcharge on tickets, or an additional tax on parking or concessions. In this case, the standard taxes levied on tickets, concessions, and parking would go into the District’s general fund, and only the special additional taxes would be used for stadium construction costs.

What’s in the Mayor’s Stadium Financing Proposal?

As noted, Mayor Williams has proposed spending \$339 million to support a new baseball team. This includes \$275 million to support construction of a new stadium. This would cover roughly two-thirds of the construction costs, with the team owners covering the remaining costs. In addition, the mayor has proposed spending \$15 million to renovate RFK Stadium for use while a new stadium is being built; \$40 million to create a reserve fund to ensure payment of construction costs; and \$9 million for the cost of issuing a stadium construction bond.

Stadium construction would be supported by issuing a bond — that is, by borrowing funds through the bond market — which would be paid off over 30 years.³ The mayor’s financing proposal would raise \$24 million each year for this period to cover the debt repayment, in the following ways:

- \$9 million from a new “ballpark fee” on DC businesses with gross incomes of \$3 million or more.
- \$10 million from a 10 percent sales tax on tickets, concessions, and product sales plus a 12 percent tax on parking at the stadium.
- \$5 million from an income tax on the salaries of team players.

The proposal to raise \$5 million from an income tax on players is controversial. The District would need approval from the federal government to levy an income tax on players, since they would not necessarily be DC residents. Under current law, non-residents who work in DC are not subject to DC's income tax, which means the proposed tax on players would make them the only group of non-residents subject to the DC income tax. Even if Congress approves this tax, the Major League Baseball players' association has indicated that it will challenge it on the grounds that it would be a selective tax.

Officials from the Williams administration claim that this tax provides a cushion to ensure that the stadium bond will be repaid, and that the stadium financing plan will work even if the tax is not allowed.

A Baseball Team Would Not Promote Economic Development

The stadium financing legislation introduced by Mayor Williams states that a stadium “would significantly enhance the economic development and employment opportunities within the District.”⁴ Documents prepared by the Office of the Deputy Mayor for Planning and Economic Development state that a DC stadium will create over 1,000 new jobs and millions of dollars in additional income.

There are a number of problems with these estimated impacts, however. Of the 1,035 new jobs projected by the Williams administration, only 300 to 380 — or no more than 37 percent — are expected to go to DC residents.⁵ When this jobs figure is compared with the proposed \$339 million stadium subsidy, it means that the District would spend at least \$900,000 for each job for DC residents created by the stadium, a very large cost per job.

Moreover, even this relatively modest economic impact is likely to be exaggerated. Cities seeking to attract a professional sports team typically commission an economic analysis of the impact of a team, and these analyses invariably predict that a stadium would produce strong economic effects. Unfortunately, economists that have reviewed these analyses find that they often “employ an inappropriate methodology, ...and unrealistic assumptions, to project the effect of a new baseball facility” and that the results “invariably reflect the desires of those who commission them...”⁶

In fact, the overwhelming consensus from economic scholars is that baseball teams produce few economic benefits and may in fact have negative effects. Three factors help explain these results.

- **Baseball teams create poor-quality jobs.** In addition to the players, most teams employ roughly 100 people in their front offices. The majority of the jobs created by a team are day-of-game jobs, such as in concessions. These tend to be part-time and have low pay and limited benefits.

- **Baseball teams do not lead to increases in total entertainment spending.** Economic research suggests that families and individuals have relatively fixed budgets for entertainment, as well as fixed amounts of time to spend on leisure activities. Attendance and spending at a new baseball stadium typically results in reduced spending elsewhere. In summarizing the research, the National Conference of State Legislatures notes: “Many economists have found that using public dollars to finance sports stadiums does not provide a good return on the investment since sporting events are generally attended by local residents with limited disposable income. Money spent on sports is money that may have been spent elsewhere.”⁷

As a result, the new jobs created by a DC baseball stadium would be offset by reduced employment in other parts of the area. The economic analysis prepared by DC officials does not take this offsetting effect into account and instead implies that all jobs created by a baseball stadium would increase overall employment in DC.

- **Revenues earned by baseball teams do not get recycled in the local economy.** Roughly half of a baseball team’s revenue goes into player salaries, and much of the remainder goes to the owners, and neither group tends to spend their earnings locally. A study commissioned by baseball supporters in Virginia assumed that 80 percent of player salaries would be spent outside the state.⁸

Moreover, spending at a baseball stadium is likely to result in reduced spending at smaller businesses owned by local residents, who are much more likely than players and owners to spend their incomes locally. For this reason, a new team could actually hurt the local economy. Indeed, some economic research shows that baseball teams lead to reductions in area incomes.⁹

Would a Stadium Shift Entertainment Spending from the Suburbs to DC?

Some argue that public financing for a DC baseball stadium is warranted because it would draw entertainment spending from the suburbs into the city and would help revive the region around the stadium. They cite the MCI Center and the revitalization of DC’s downtown to support such a claim. Yet this argument has several shortcomings.

In general, economic research has found that sports stadiums do not lead to a revival of urban economies. Economist Andrew Zimbalist notes that “The impact of the sports stadium alone, however, is likely to be small. A stand-alone baseball park with 81 games a year is unlikely to induce many rational independent retailers to invest in adjacent businesses.”¹⁰ Studies have found that stadiums placed in urban areas do not lead to greater overall employment or population in those areas.¹¹

In addition, it is not clear that the MCI Center is the primary factor behind the revival of DC’s downtown. Undoubtedly, the MCI Center has contributed to some downtown development, including restaurants in the area close to the arena. But it is not reasonable to

assume that the arena is responsible for the broader housing and commercial boom throughout the downtown area. Many areas of the District have experienced an economic rebound in recent years, and the downtown development is better viewed as a part of the city's overall improvement.

A Baseball Stadium Subsidy Would Not Pay for Itself through Higher Taxes

Documents prepared by the Williams administration state that the economic growth stimulated by a baseball stadium would generate \$28.5 million in new DC tax revenues each year. This is slightly more than the \$24 million in annual funds that would be needed each year to pay off the stadium construction costs.

Yet the calculation of revenue growth relies on the same flaws that were found in the estimates of job and income growth that would come from a stadium. In particular, it assumes that all economic activity generated by a baseball stadium will be new to the District. It does not take into account the fact that residents and tourists who go to baseball games will spend less on other forms of entertainment. Thus, while the economic activity at a stadium would generate tax revenues, they would be offset at least in part by reduced tax collections in other parts of the District.

Because much of the revenue generated by the stadium would not be "new" but simply a change in the place where revenue is collected, the stadium is unlikely to add to the District's economy, it also is unlikely to increase the city's tax collections significantly. This conclusion is backed by academic research, which finds that public subsidies for stadium construction do not pay for themselves through higher tax collections.

- A study of 25 publicly financed stadiums built between 1978 and 1992 found that none of them generated net tax revenue for the host city.
- Even Baltimore's Camden Yards, widely considered one of the most successful stadium projects, produced far less than it cost. A study of the stadium found that it produced \$3 million in economic benefits to Maryland, while its annual public costs were \$14 million. The authors concluded that "Even at Camden Yards, public expenditures on the baseball stadium cannot be justified on the grounds of local economic development."¹²

A DC Baseball Stadium Would Have Large “Opportunity Costs”

Mayor Williams claims that the proposed financing package would not affect funding for other DC services, because the stadium subsidy would be supported by a new tax on businesses and by tax revenues generated at the stadium. This argument has two significant flaws.

First, a substantial proportion of the financing package would come from a tax on businesses throughout the city—and thus would not be connected in any way to revenues generated by the stadium. If the proposed income tax on players is not approved, the business

tax would represent roughly have of the financing package. It is reasonable to assume that these general revenues could be used to support other services if they did not have to be used to pay for a stadium. Moreover, using this tax for a stadium would make it more difficult to tax businesses for other purposes.

Second, the mayor's proposal would take a valuable piece of District property largely off the tax-generating rolls. By preventing other, tax-generating economic activity from occurring on the site, the stadium could limit revenue growth in the District. The mayor's estimate of the impact of a stadium does not take this so-called "opportunity cost" into account.

- The stadium site would be exempt from property taxes.
- As noted earlier, the proposal also would devote taxes on parking, ticket sales, concessions, and player salaries to paying for stadium construction and related costs. Because the stadium bond would be repaid over a 30-year period, these revenues would be unavailable for general purposes for a substantial amount of time.

By contrast, if a stadium were built with private funds, and the District did not have the obligation of paying off the construction costs, all of the taxes generated at the baseball stadium would flow into the District's general fund and would be available to support basic services.

Similarly, if a baseball stadium were not built, it is likely that other economic activity would occur on the proposed sites over the next 30 years. The Williams administration has identified possible sites for a new stadium, with the preferred site being near the intersection of New York Avenue and Florida Avenue, near the site of the forthcoming New York Avenue Metro station. Documents prepared by the Williams administration describe all of the possible sites as being in "principal growth areas" of the city. This reflects the desire of city leaders and of Major League Baseball to place a stadium in a central location with easy access. It therefore is reasonable to assume that all of the sites would be developed in some other way if a stadium is not built — and that this development would lead to increases in DC tax collections.

In short, financing a new baseball stadium primarily with public funds would have a negative effect on District revenues and thus would make it harder to support basic public services.

Monopoly Structure of Major League Baseball Allows it to Extract Stadium Financing Deals from Host Cities

The academic research findings highlighted in this paper suggest that an investment of public funds in a new baseball stadium cannot be justified on economic development grounds. Instead, the willingness of District officials, as well as officials in other jurisdictions, to devote substantial public sums to stadium construction appears to result from the eagerness of cities to have baseball teams and the strong negotiating position of Major League Baseball.

Under federal law, Major League baseball is allowed to operate as a monopoly. As a result, the league controls decisions over the location of franchises. A person or group that is interested in buying and moving a team cannot do so without approval from MLB.

According to sports economist Andrew Zimbalist, Major League Baseball has used this power to leverage public financing deals from cities eager to host a team: “As a monopolist, [MLB] artificially reduces the number of franchises relative to the demand for franchises from economically viable cities. With excess demand for teams, cities are thrust into competition with each other to obtain or retain a team. This competition leads cities to offer public funds for facility construction and more favorable lease terms.”¹³

Indeed, Zimbalist notes that the monopoly power of Major League Baseball is a primary reason that the Washington area — which has the fifth highest median income in the nation and is the largest metro area without a team — has not acquired a baseball team.

When he was still baseball commissioner, Fay Vincent referred to Washington, D.C. as an “asset” of baseball, even though no team was playing in the nation's capital. Why? Because Washington was and is a potential host of a team and could be used to leverage better deals from other cities. In a sense, baseball treated Washington as if it owned the town...Were there two competing leagues, Washington, D.C., as the country's eighth largest media market and the nation's capital, would have one franchise, or perhaps two, in a heartbeat.¹⁴

One of the major concessions that MLB seeks from cities seeking to host a team is that they build a new and state-of-the art stadium mostly at public expense. In recent years, states and cities have offered to pay as much as two-thirds of the cost of stadium construction. Given this history, cities that bid for new teams understand that they must make this offer. Not surprisingly, the three jurisdictions vying to host the Montreal Expos have offered to pay roughly this share of the stadium construction costs.

In sum, the \$339 million proposed by Mayor Williams is not based on an amount that DC considers affordable nor the level of investment that would be justified based on expected economic returns. Instead, the offer is based on what District believes is necessary to compete with other cities, a competition spurred by the legally protected monopoly of Major League Baseball.

¹ Andrew Zimbalist, *May the Best Team Win: Baseball Economics and Public Policy*, Brookings Institution Press, 2003, p. 125.

² James Quirk and Rodney Fort, *Pay Dirt: The Business of Professional Team Sports*, Princeton University Press, 1992, pp. 170-171. Also Bruce W. Hamilton and Peter Kahn, “Baltimore’s Camden Yards Ballparks,” in *Sports, Jobs and Taxes: The Economic Impact of Sports Teams and Stadiums*, Noll and Zimbalist, eds., Brookings Institution Press, Washington, DC, 1997.

³ The stadium would be separate from DC’s overall capital improvements plan and would not affect the ability to support other capital projects.

⁴ This is from Section 2 of bill 15-270, “The Ballpark Revenue Amendment Act of 2003.” The legislation can be found at <http://www.dccouncil.washington.dc.us/images/00001/20030509154335.pdf>.

⁵ All references to the Williams administration's estimates of the economic and fiscal impact of a baseball stadium come from two sources: "DC '04: Bringing the National Pastime to the Nation's Capital: Fact Sheet," Office of the Deputy Mayor for Planning and Economic Development, Office of Planning, and D.C. Sports and Entertainment Commission, undated; and "Summary of the Fiscal and Economic Benefits of a MLB Team and New Stadium to the District of Columbia," provided by the Office of the Deputy Mayor for Planning and Economic Development, dated May 7, 2003. Those documents indicate that District residents will hold 100-180 of 360 full-time equivalent jobs at a stadium. The documents also estimate that 675 jobs will be created indirectly by a stadium, such as in restaurants and hotels, and that DC residents will hold 200 of those jobs.

⁶ Zimbalist, p. 125, and Dennis Coates and Brad Humphreys, "The Stadium Gambit and Local Economic Development," in *Regulation* magazine, Vol. 23 (2000), No. 2., p. 17.

⁷ National Conference of State Legislatures, "Playing the Stadium Game: Financing Professional Sports Facilities in the '90s," March 1998 (<http://www.ncsl.org/programs/fiscal/lfp106.htm#econ>).

⁸ Stephen Fuller, "Economic and Fiscal Impacts of a Major League Baseball Franchise and Stadium on the Commonwealth of Virginia: 2003 update," page 6. This study was commissioned by the Virginia Baseball Stadium Authority and can be found at www.baseballinva.org.

⁹ See for example, Coates and Humphreys (2000), noted above.

¹⁰ Zimbalist, p. 131.

¹¹ See, for example, Mark S. Rosentraub, "Stadiums and Urban Space," in *Sports, Jobs and Taxes: The Economic Impact of Sports Teams and Stadiums*, Noll and Zimbalist, eds., Brookings Institution Press, Washington, DC, 1997.

¹² Hamilton and Kahn, op cit., p. 246.

¹³ Zimbalist, pp. 123-124.

¹⁴ *Ibid.*, p. 30.