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Long-term Economic Impacts of Stadiums and Sports Teams

A Summary of Robert Baade's Work

by Janice Houston

Introduction

The debate over the construction of a stadium within Salt Lake County for Real Salt Lake has centered on the use of public funds to offset costs. This debate mirrors discussion in cities across the country whenever a professional sports team seeks public monies to build a venue. Often the arguments involve some type of cost-benefit analysis or input/output economic model. These tools frequently show that stadiums do not pay off financially. The revenues generated by these stadiums are insufficient to cover ongoing operational expenditures beyond debt service and depreciation of the facility.[i]

Promoters of sports venues have used this information to argue for the public subsidy of stadium construction. They argue that because these facilities are a financial loss to the private owner but provide both tangible and intangible benefits to the public; these facilities should be the recipients of public funds.[ii] Stadiums are, according to this line of argument, no different than roads, schools, and other infrastructure subsidized by taxpayer funds.

The study summarized here attempts to quantify the tangible benefits of sports stadiums in order to determine if those benefits justify the use of public monies. The author, Robert Baade, is particularly concerned about opportunity costs. He argues that policymakers must know whether or not subsidizing stadiums would provide the greatest return on investment in terms of increased economic activity, jobs and other key economic indicators. Without these answers, policymakers are gambling with public funds. In order to quantify these opportunity costs, Baade designed studies that varied from the normal economic impact/multiplier effect models used to determine impacts.

This study is different than most economic impact analysis that is done on stadiums in one key factor—timeframe. Much of the analysis generated when a stadium is proposed is forward-looking. Estimates are made regarding revenues to be generated by the facility and, in turn, economic benefits—direct, indirect and induced—are calculated. This study, in contrast, look at the economy of metropolitan areas over long stretches of time to determine how much economic activity was generated by the construction and renovation of sports facilities and the entrance and exit of professional sports teams. The author takes care to isolate this economic activity from the overall economy, thus allowing policymakers and others to analyze benefits regardless of fluctuations in a metropolitan area's fortunes over time.

Findings

Baade began by analyzing the economy of 48 cities from 1958 to 1987. Of these cities, 36 were the home of professional sports teams and/or had stadiums constructed or renovated during this time period. There were 12 additional cities included in the study. These cities did not have either a professional team or a stadium and were used as a control group to compare against the 36 above. For each of the cities included in the study, Baade examined the economy of the whole Metropolitan Statistical Area (MSA) rather than looking exclusively at the hosting city. For Utah, this means data on the entire Salt Lake-Ogden MSA were used, rather than just Salt Lake City specifically. This was done to make sure that the stadium was generating new economic activity rather than just relocating it from one part of the metropolitan area to another.

For the 36 cities, Baade found:

Presence (or gain/loss) of a Professional Sports Team

- There were 32 cities that gained or lost a professional team during the time period studied.
- Of these only two cities showed any significant economic impacts from hosting their teams.
- For Indianapolis, the economic impacts were positive.
- For Baltimore, the economic impacts were negative.
- For the other 30 cities (including Salt Lake), there were no changes in economic activity.

Change in the number of stadiums or venues

- There were 30 cities that had a change in the number of stadiums and/or arenas.
- Of these, 27 (including Salt Lake) showed no changes in economic activity due to the construction or renovation of these venues.
- For the remaining three (St. Louis, San Francisco/Oakland, and Washington DC),the economic impacts were **negative**

Beyond examining the economies of specific cities Baade grouped them into regions. This was done to see if residents in outlying areas would consider teams and stadiums enough of a draw to visit the metropolitan area above and beyond any normal trips they would take. Interestingly, the Rocky Mountain region (consisting of Denver, Salt Lake, Boise and Phoenix, as well as surrounding areas), showed a positive economic impact from the construction of stadiums. This impact was separate from having the sports teams. This suggests that for the region the construction projects to build stadiums were large enough in terms of jobs and money flowing into the local economy to have a positive impact on the region, even if within the individual cities the impact was too small to be significant. It also may suggest that these venues, since they are used for more than just sporting events, become draws for other entertainment activities, such as concerts, that would have previously bypassed these cities. Thus the venue has a greater economic value than the team it was constructed for.

Conclusion

Baade’s findings suggest that for most cities, Salt Lake included, the tangible economic benefits of hosting a professional sports team and/or constructing a new venue are not the highest and best use of public funds. Very little tangible economic activity is generated from them, unlike road construction or other public works.

See Robert Baade's full report here.

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[i] Fort and Quirk
[ii] Baade

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