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Public Funding of Sports Stadiums

Executive Summary

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Introduction

Since 2000, 28 new major league¹ stadiums have been built costing over \$9 billion dollars. More than half, over \$5 billion, of the costs of the new stadiums were funded using public dollars.² In Utah, 4 stadiums have been built since 1991 costing \$386 million in today's dollars, \$200 million (in today's dollars) of that total was paid out of the coffers of Utah cities, Salt Lake County and the State of Utah.³ Across the nation, franchises have argued that building a new stadium will lead to economic development in the form of increased incomes, jobs and tax revenues. However, the preponderance of academic research has disputed these claims. This article looks at the benefits and costs of building a stadium and discusses why the economic development argument has failed to stand up to academic scrutiny. Stadium seeking franchises are now shying away from making economic development claims in light of the strong research findings. Franchises are able to make quality of life arguments and, given the monopoly power of the major sports leagues, cities are responding by competing for a limited number of franchises by offering to fund stadiums.



Public Ownership of Stadiums has increased over time

Since the 1970s changes in professional sports have led to an increase in publicly funded stadiums. Growing costs in the form of player free agency and changes in the tax code left team owners looking for ways to increase revenues in order to maintain the returns on their investments in professional sports team franchises.⁴ One of the most effective ways to increase revenues is to invest in a new grand stadium with luxury boxes and elaborate concessions. Benefits to a city of building a stadium have become almost synonymous with the benefits of having a sports team because, for most cities, the cost of not providing public funding for a new stadium is losing the team to another city. As a result, two thirds (66%) of teams in the NFL, NBA, MLB, NHL and MLS are playing in stadiums built or significantly renovated since 1990—with 28% built or significantly renovated since 2000.

Sports Stadiums in Utah

Three sport stadiums have been built in the Salt Lake Metropolitan area since the 1990s and the Real Salt Lake Stadium is currently under construction. Stadiums are typically built with a combination of private and public dollars. Municipalities generate dollars by issuing bonds that anticipate an increase in the future stream of tax revenues: property taxes from a redevelopment agency, transient room taxes or general fund revenue from a variety of taxes.

Benefits of Public Funding of Sports Stadiums

1. Franchise owners profits
2. Job creation and increased incomes
3. Tax revenue increases
4. Consumer surplus
5. Fan happiness
6. Civic pride

Costs of Public Funding of Sports Stadiums

1. Opportunity cost of public dollars
2. Substitution effect
3. Compensating differentials

4. Productivity decline
5. Non-fan inconvenience

Can the Costs and Benefits be Measured?

Often franchises or local chambers of commerce hire economic consulting firms to estimate the economic benefit to a metropolitan area. These studies tend to find positive benefits in terms of the jobs created: personal income increases and tax revenue growth associated with the construction and operation of the new stadium. In response to the recent growth in public subsidies of sports stadiums, many independent, academic economists have also studied the effect on economic growth. The academic literature on the economic benefits of sports stadiums concludes that there is no economic growth associated with professional sports franchises and stadiums.⁵⁻¹²

Because of the preponderance of evidence against the economic development argument, more recent stadium requests by franchises have focused on the quality of life arguments to justify public expenditure.⁶ The quality of life justifications have not been subject to academic scrutiny, likely because they are extremely difficult to measure. There is no reason to assume that the quality of life outcomes are not large enough to justify the public expenditure.

Conclusion

In the last 20 years, billions of public and private dollars have been spent building sports stadiums across the United States. Proponents of a new stadium often cite economic development benefits that will be associated with the new stadium. Academic economists have not found statistically significant relationships between various measures of economic growth and stadium construction. The academic studies probably better capture the effects of a stadium because they are not subject to a number of errors that often occur in the economic development assessments done by pro-stadium advocates. However, throwing out the economic development argument does not necessarily lead to rejecting public spending on stadiums. Quality of life arguments may justify public subsidizing a sports facility.

[See the full report.](#)

Reference List

1. Major league sports include Major League Baseball (MLB), the National Basketball Association (NBA), the National Football League (NFL), and the National Hockey League.
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