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Public Dollar Private Owners; Tax Subsidies for New Stadiums in Professional Sports

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PUBLIC DOLLAR PRIVATE OWNERS; TAX SUBSIDIES FOR NEW STADIUMS IN PROFESSIONAL SPORTS

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CHAPTER 1

INTRODUCTION

The growing popularity of North American professional sports over the last twenty years directly coincides with the recent trend of urban communities using tax dollars to publically subsidize professional football, baseball, and basketball stadiums. Communities across North America invest substantial amount of public tax dollars in private facilities in light of a consensus among policy analysts that the economic impact of the stadium is greatly exaggerated.[1] Sports Economist argue that the actual economic impact of sports teams in terms of creating new jobs, generating individual spending, increasing county tax revenues and attracting new business is too small to justify the large public expenditure for the stadium subsidies.[2]

In North America the three dominant professional sports leagues in terms of overall league revenue are the National Football League; Major League Baseball; and the National Basketball Association. With the exception of the Green Bay Packers who operate as the only community owned franchise, professional sports teams in North America are privately owned. As private entities sports teams are not obligated to disclose their financial statements making it difficult to know exactly how profitable

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[1] 3. Kevin Delaney and Rick Eckstein, *Public Dollars, Private Stadiums: The Battle Over Building Sports Stadiums* (New Brunswick: Rutgers University Press, 2003).
[2] Robert Baade, Richard Dye. " The impact of stadiums and professional sports on metropolitan area development." *Growth & Change* 21, no. 2 (Spring 1990). 2-5.

owning a professional sports team really is. The now defunct *Financial World* magazine published estimates of operating profits and franchise valuations from 1991 to 1998. In 1999 *Forbes* magazine started publishing the figures in their sports economics' section. Estimates of overall league revenue consistently rank the National Football League, Major League Baseball and National Basketball Association as the most lucrative sports leagues in the world[3].

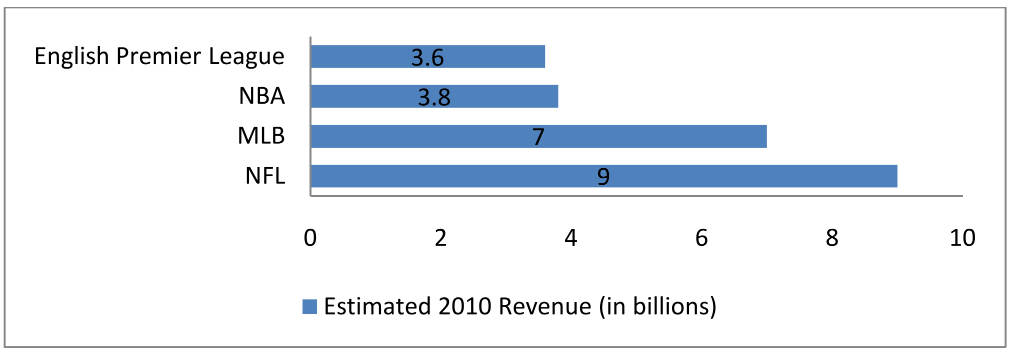

Figure 1. Estimated 2010 Overall League Revenue in Billions

Public subsidies for the professional sports teams are a relatively new phenomenon beginning in the early 1990's. In the past sixty years professional sports have undergone a transformation emerging as a national obsession in the flourishing post World War II economy. In the 1950's, professional football and baseball teams generally played in dual purpose privately financed stadiums, equally distributing stadium related revenue between teams. The primary revenue source came almost entirely within the

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[3] "CHART OF THE DAY: NFL Players And Owners Are Fighting Over The Biggest Pie In Sports Read more: http://www.businessinsider.com/nfl-biggest-pie-in-sports-2011-3#ixzz1KM9dpnCV". *Business Insider*. http://www.businessinsider.com/nfl-biggest-pie-in-sports-2011-3. Retrieved 23 April 2011.

stadium from ticket sales, limited stadium advertising and concessions. In the 1960's individual teams began signing lucrative broadcasting contracts that collectively strengthened the leagues. During the 1970's, broadcasting revenues in the large markets surpassed stadium revenue although overall league revenue was still dominated by ticket sales and concessions. A new trend emerged in the 1980's when owners identified alternative revenue streams most notably the improvement of concession and sports memorabilia available within the stadium[4]. Team owners found that fans were willing to pay for improved quality and quantity of concessions and the providers were willing to compete to have access to the stadiums and fans.

The last twenty years of professional sports have seen unprecedented growth attributed primarily to lucrative broadcasting contracts and new concession revenue. With the growth a disproportional amount of new stadiums have been built. Beginning in 1990 fifty Major League Baseball, National Football League and National Basketball Association teams have the constructed new facilities. The cost of the new facilities in the three sports eclipsed twelve billion dollars with approximately 65 percent of the funds coming from public subsides[5].

The phenomenon of publically subsidizing facilities for professional sports teams is the direct result of the team's favorable negotiating leverage with the local governments because of scarcity of franchises controlled by the leagues monopolistic

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[4] Delaney, Kevin, and Rick Eckstein. *Public dollars, private stadiums: the battle over building sports stadiums*. (New Brunswick: Rutgers University Press, 2003), 24-25

[5] Appendix A B and C

power, and the institutional alliances between local corporate advocacy groups, and local government.

Public subsidies for private stadiums have emerged largely because professional sports leagues are capable of acting as monopolies artificially controlling the location and existence of the individual teams. The market structure of the leagues allows them to restrict the number of teams, which is significantly less than cities that are capable of supporting a franchise. In all three major sports the leagues allow teams to veto the creation of new franchises or the movement of existing teams into their market areas. In economic terms, Noll and Zimbalist (1997) identify how the league can control supply regardless of consumer demand, which further increases the value of the restricted commodity[6].

Professional sports teams like businesses are mobile and are constantly looking to maximum profit enriching the owners. This business practice allows teams to shop local jurisdictions for the most desirable public subsidy increasing revenue from a new stadium. Owners are able to exert control over the timing and process of their threatened moves giving them an absolute advantage when dealing with local governments and communities[7].

According to Delaney and Eckstein:

> The only certain effective way to give cities and taxpayers a level playing field in their negotiations with sports teams and leagues is to have

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[6] Noll, Roger and Andrew Zimbalist. *Sports, jobs, and taxes: the economic impact of sports teams and stadiums*. (Washington D.C.: Brookings Institution Press, 1997), 237.
[7] Clyde Brown and David Paul "Local Organized Interest and the 1996 Cincinnati Sports Stadia Tax Referendum," *Journal of Sports & Social Issues 23, no 2 (1999) : 221-224*

> a larger supply of teams. This means changing the fundamental structure of our professional sports industries. The competitive ideal even allowing for the necessary cooperative decision making that is required to schedule a contest agree upon rules and keep records, would mean more team in more cities a wider range of viewing options for fans and some redistribution of league profits back to cities and taxpayers.[8]

Cities have largely accepted that they must provide teams with new publically subsidized facilities or lose the franchise to other communities willing to spend public dollars. Sports teams operating in new facilities today generally pay little or no rent, are given most or all parking revenue and naming right to the stadium, and are in a few cases given ticket sale guarantees by the city.[9] The standard financial plan cities propose to the teams divide the stadium construction expenditure in three components; payments to be paid directly by team owners out of their pocket; those to be financed through upfront payments such as naming rights, special seat license, and sale of luxury boxes; and those to be paid initially from a budget or sale of bonds approved by the local government[10]. When a team rarely becomes available through expansion or relocation the league is able to create a situation of competitive bidding from several potential cities giving the individuals teams a substantial negotiating advantage over the local governments.

Teams owners initiate the negotiation process between the team and local government by publically demanding public subsidies and strengthen their position by threaten to relocate the team if their demands are not meet. Although the teams are the

[8] Delaney and Eckstein, 108
[9] Roger and Zimbalist, 28.
[10] *Ibid*., 30.

direct recipients of the subsidies it is the indirect beneficiaries that prove instrumental in supporting, campaigning and securing the public subsidy. The advocacy group who support the subsidy are dominated by local corporations composed of elite CEO's who influence the political process and utilize resources at their disposal to fund the campaigns. The advocacy groups are less interested in public policy and favor large visible projects that will attract new corporations and dollars to the city. Corporate advocates see the stadiums with luxury boxes and club seating as a necessary recruiting tools. Because the corporate groups receive no direct benefits from the subsidy they have a greater incentive to lobby and support the subsidy projects.

The corporate advocacy groups generally use two strategies for why local communities should spend public dollars on the construction of new facilities. The first claim is that new stadiums will provide tangible economic benefits to the local community. The second claims that the new stadiums will augment the way the community views itself, and how others perceive the community [11]. Roger and Zimbalist (1997) found the most effective path to a new publically subsidized stadium is to have a unified corporate advocacy group that emphasizes ways in which the stadium will enhance community self esteem and community collective conscience[12]**.** The advocacy organizations success relies on corporate and political relationships to devise a tax proposal, and privately fund the campaign.

[11] Roger and Zimbalist, 35-43.
[12] *Ibid*.,35

Whenever public subsides are proposed for private stadiums there is a strong community resistance. Anti-tax supporters and community activist agree that public expenditure on sports displaces resources needed elsewhere in the community and absorb scare government funds which ought to be used for either tax reductions or programs having a higher social or economic payoff[13]**.** Under the fundamental principle of taxation the financial contribution for a public service should be a function of the benefits received for the constituents. The opposition argues that the economic activity generated by the sports team is relatively small given the large public investment required, and the types of jobs beyond the initial construction effort are low paying and seasonal[14]. The subsidization of stadiums is commonly referred to as corporate welfare, and team owners were personified as greedy and tightfisted with their own money.

Economist has consistently reported that stadium projects are poor investments unworthy of public sector efforts and dollars. The projects simply redirect spending from one activity to another producing only a small increase in economic activity and any jobs created are low paying service jobs. Despite the overwhelming research showing the economic impacts of the sports facilities fail to deliver the purposed economic benefits, North American metropolitan cities continue to build new sports facilities using public funds[15]. The irony behind the publically financed stadiums is that the average citizens who's tax dollars end up paying for the stadiums are the least likely to benefit from the

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[13] DeMause,Neil and Joanna Cagan, *Field of schemes: how the great stadium swindle turns public money into private profit*.(Lincoln: University of Nebraska Press, 2008) 55
[14] Brown and Paul, 23
[15] Roger and Zimbalist, 45-48.

new facility. New designs for stadiums tend to focus on adding luxury suites and club seats intended for individual season tickets or corporate entertainment[16].

The direct economic impact on communities when publically funded facilities are built at the expense of the taxpayer has been extensively recorded. The focus of this paper is to examine the impact publically subsidized facilities built in the last twenty years have on the overall team valuation compared to teams with no public subsidy or no new stadia.

When owners of private teams align themselves with the business interest of corporate advocacy groups and utilize the bargaining advantage secured by the scarcity of teams I believe the overall valuation of the teams will prove to be more lucrative for team owners than when no new stadiums are constructed or stadiums are privately financed. Each political process between the team and local government is unique structuring the deals differently. The following two chapters examine the political process and type of public subsidy given to the Cincinnati Bengals, Cleveland Indians, and Cleveland Cavaliers.

[16] Roger and Zimbalist,141.

CHAPTER 2

CINCINATTI

Beginning in the early 1990's, Cincinnati Bengals Owner Mike Brown voiced his complaints about Riverfront Stadium, the thirty-year-old multipurpose facility the Bengals currently shared with the Cincinnati Reds. Brown announced his team was losing money and the only way the team would remain in Cincinnati was if a new larger stadium was built with public subsides. Brown took his concerns to the city commissioners and lobbied for a new publically financed stadium which would generate revenue with added luxury suites and club seats giving the Bengals necessary resources to compete with other football franchises in free agency.

Four years later, with no stadium plans underway, Brown escalated the conflict filling a lawsuit against the city which was settled when the city agreed to give the team an additional 2.75 million dollars per year for the next four years and promised to build additional luxury suites and club seats at Riverfront Stadium. As part of the settlement the city renegotiated the terms of the Bengals lease and agreed to have a new stadium in the works by 1998[17].

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[17] Delaney, Kevin, and Rick Eckstein. *Public dollars, private stadiums: the battle over building sports stadiums*. (New Brunswick: Rutgers University Press, 2003), 66-69.

Shortly after securing the additional payments from the city, Brown publically announced that the team was being courted by four other cities willing to publically finance a new stadium. Brown specifically acknowledged that Maryland had agreed in principal to publically finance a two hundred and fifty million dollar single purpose stadium in an attempt to lure the franchise from Cincinnati to Baltimore. Days after Brown's latest announcement about the Maryland offer, first term Hamilton County Commissioner Bob Bedinghaus proposed a unique financing plan to fund a new football stadium. The plan called for a twenty-year sales tax increase of one cent, which would pay for the 540 million dollar sports complex, a 300 bed county jail, a small subsidy for a 911 emergency communication center, and a 18% reduction in property taxes (table 1). The twenty year tax increase in the Bedinghaus plan was the longest and most expensive sports project ever proposed in the United States, with a total public expenditure of over 700 million with debt service[18]. The plan was also unique in that it was the first proposed tax increase that combined revenue raising measures with a reduction in property taxes.

[18] 1. DeMause, Neil and Joanna Cagan, *Field of schemes: how the great stadium swindle turns public money into private profit*.(Lincoln: University of Nebraska Press, 2008) 55

Table 1. Proposed New Revenue Expenditures Hamilton County Sales Tax[19]

New Expenditure	Percent of Tax
Property Tax rollback	40.0
Stadium Cost	35.0
300 bed county jail	15.0
Retirement of other long term debt	6.5
Reduction in real estate transfer tax	2.0
Subsidy for county commissions center operations	1.5
TOTAL	***100.00***

Fearing that the city would reject the proposal Brown took aggressive action issuing an ultimatum on June 24 stating if a deal was not reached by June 29 he would begin exclusive negotiations with the Maryland Stadium Authority to move the Bengals to Baltimore[20]. Faced with the option of publically subsidizing a new stadium or losing the franchise, Hamilton County commissioners voted 2-1 to pass two separate .5 % sales tax increases. Ohio law allows county governments to unilaterally piggyback .5 % increases on the state's 5 % sales tax.[21]

The county commissioned the University of Cincinnati to conduct an economic impact study of the proposed measure. The study found that the construction of the new stadium would bring the city a one time economic benefit of 1.13 billion, the annual economic impact of the Bengals operating in the new stadium would be 296 million, the

[19] Noll, Roger and Andrew Zimbalist. *Sports, jobs, and taxes: the economic impact of sports teams and stadiums*. (Washington D.C.: Brookings Institution Press, 1997), 291.
[20] Clyde Brown and David Paul "Local Organized Interest and the 1996 Cincinnati Sports Stadia Tax Referendum," *Journal of Sports & Social Issues 23, no 2 (1999)* 225.
[21] Delaney and Eckstein. 45-49.

stadium would support 18,461 jobs, and about half of the sales tax increase would be paid by non Hamilton County residents (table 2)[22].

Table 2. Economic Impact of Proposed Stadium Funding Project

Impact in millions	Stadiums	Parking	Infrastructure	Total
Direct spending	407.9	75.9	36.0	**519.8**
Local spending	367.1	68.31	32.40	**467.82**
Indirect impact	525.48	91.90	45.46	**662.39**
Total Economic Impact	892.59	160.20	77.87	**1,130.66**
Number of jobs	14,648	2,582	1231	**18,461**

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The public subsidy plan was meet with strong opposition by anti tax groups, community activist and unified suburban leaders. The group Citizens for Choice in Taxation composed of anti-tax activist, union leaders, suburban government officials and Cincinnati City Council member Tom Luken was formed to lobby for the community opposing public subsidies for to the construction of the stadiums benefiting a handful of private individuals. The Cincinnati Federation of Teachers joined the group opposing the tax increase arguing, that a large public expenditure towards the private stadium would make passing future legislature funding public school overwhelmingly difficult. A survey

[22] University of Cincinnati. Center for Economic Education. "The Effects of Construction, Operations and Financing of new Sports Stadium on Cincinnati Economic Growth." January 2 1996 14.

of nearly five thousand Cincinnati residents "found little support for public financing; nearly 60% opposed the construction of a new stadium for the Bengals, with 37 % favoring such a project; 17% supported the construction of a new stadium; and just 19 %supported a tax increase to pay for such projects[23]. The corporate business organizations were well aware of the increasing opposition and began to devise a plan to support the tax increase.

Despite being a modest city of 350,000 residents, Cincinnati had an overwhelming corporate presence as six fortune five hundred companies were headquartered in the downtown area. The Cincinnati Business Committee, an elite business organization composed of the city's top twenty-six CEO's, took the lead supporting the tax increase. The Cincinnati Business Committee was formed in 1977 and closely aligned themselves with the local Chamber of Commerce. The Cincinnati Business Committee made securing the public funds for the proposed stadium their main priority. The group had a vested interest in projecting the city favorably to prospective clients and business personnel. The group advocated that a midsized city such as Cincinnati needed to offer professional amenities to prospective upper level mangers and executives.[24]

The group Citizens for Choice in Taxation was at a substantial disadvantage lacking the financial resources needed to properly fund a campaign. Nevertheless the group's strategy was to appeal the impending tax increase and force a referendum. The

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[23] Clyde Brown, "The Campaign by Cincinnati Business Interest for Strong Mayors and Sports Stadia," *Journal of Sports and Social Issues* 23, no 2 (March 1999) : 3-4.
[24] Delaney and Eckstein, 50.

same state law that allowed the unilateral piggyback of the two separate .5 % increases also guaranteed that citizens could petition for a repeal of the referendum vote[25]. The anti-tax and community activist group lead by local attorney Tim Mara began the difficult process of appeal the referendum knowing that there had never successful tax repeal in Hamilton County history. The group was met with overwhelming support and with the help of over 500 community volunteers collected 90,000 signatures in two weeks more than tripling the required amount of 27,000. The group's successful petition forces a March 1996 referendum of the proposal.[26]

Although a county commissioner was the visible spokesperson for the coalition in favor of new stadiums, it was the corporate community that provided the strategic guiding force as well as the funding in support of the referendum. The Cincinnati Business Committee spent more than 1.1 million dollars promoting the sales tax increase while the Citizens for Choice in Taxation spent less than 30,000 trying to repeal the tax. The Bengals were they single largest campaign donors contributing more than 300,000 defending the tax increase. The Cincinnati Business Committee financed a well funded campaign supporting the tax increasing as a civic investment retaining the vitality of the city keeping it from falling into the ranks of a second class city around the slogan "Keep Cincinnati a Major League City". . While the anti tax group was supported by individuals and relied on small financial contributions from the community. The unity

[25] Brown and Paul, 227.
[26] Brown and Paul, 225

and support of the corporate community in Cincinnati for raising the sales tax to fund new stadiums was essential to the success of the campaign.

Ultimately the new proposal named passed with 61 % approval despite the initial opposition voiced by the local community. The Browns accepted the terms of the new deal and reassured the city council and voters of their commitment to the project by contributing 40 million dollars to the project. Of the forty million original pledged by the team to the project none would come directly from the pocket of owner Mike Browns, rather from future stadium generated revenue. The team would contribute twenty five million dollars from revenue in permanent seat license and give the first five million dollars from the naming rights to the county. The remaining ten million dollars would be covered using the twenty-five cent ticket surcharge.

According to the agreement, officially Hamilton County would own the stadium and lease it to the Bengals for 20 years. The Bengals would pay the city 1.1 million dollars for the first ten years of the lease then the amount dropped to 1 dollar for the remaining 10 years.[27] Hamilton County was responsible for paying the stadium operations and maintenance fees, while the Bengals received the revenues from tickets concession, parking, broadcasting rights, and half of the gate receipts for non-football events at the stadium. Finally if the team did not sell 50,000 general admission tickets at

[27] Brown, 167-173.

each of its first twenty home games the county agreed to reimburse the Bengals for the revenue difference.[28]

The Cincinnati Bengals played their first home game of the 2000 season in their brand new four hundred and fifty million dollar facility. The private stadium was financed almost entirely by a .5% sales tax collected from the nine hundred thousand citizens of Hamilton County, Ohio. One sports executive familiar with the deal stated,

> The Bengals took the county to the cleaners. The net present value of the Bengals deal is negative. The county is paying them to stay. The county pays 100 percent of the maintenance and the Bengals get 100 percent of the revenues. The county pays all the real estate and property taxes. The stadium deal in Cincinnati is considered one of the most generous deals for any professional sports team in the last 20 years. [29]

The stadium deal in Cincinnati is considered one of the most favorable in the last twenty years using generous public subsidies to construct privately owned facilities.

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[28] Delaney, Kevin, and Rick Eckstein. *Public dollars, private stadiums: the battle over building sports stadiums*. (New Brunswick: Rutgers University Press, 2003), 45-49.
[29] Delaney and Eckstein, 46.

CHAPTER 3

CLEVELAND

In 1973 Cleveland Browns owner Art Modell agreed to a twenty five year lease extension of Cleveland Stadium, paying the city 13.75 million dollars a year to continue playing at the dual purpose facility that the team shared with Major League Baseball's Cleveland Indians. Ten years after the initial agreement Modell demanded a new publically subsidized stadium arguing that a lack of luxury suit and club seat revenue was causing the franchise to lose money. Fearing that the Browns would relocate, city government presented a proposal to the citizens of Cuyahoga County in 1984 to construct a domed stadium that would serve both the Browns and Indians. The referendum would fund construction of the new stadium with a countywide property taxes increase but failed with 65 percent of voters opposing the increase. Unable to secure funding for the stadium through a public vote, the Maryland Stadium Authority designated 30 million dollars towards renovations primarily to the addition of luxury seating**.** [30] The Maryland Stadium Authority operating as a public corporation of the State was authorized to issue tax exempt bonds for financing its operations without the voter approval.

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[30] DeMause, Neil and Joanna Cagan, *Field of schemes: how the great stadium swindle turns public money into private profit*.(Lincoln: University of Nebraska Press, 2008) 10-12.

When Modell's initial 20-year lease was set to expire he renegotiated a 30 year lease extension with the Stadium Authority. According to the agreement Modell's newly formed Stadium Corporation, assumed responsibility from the city for facility expenses and gained control of stadiums operations. The Bengals would play in the stadium rent-free and were guaranteed the revenue from parking, concessions, advertising and any off-season activities held at the facility. Once the Stadium Corporation gained control of the facility their first order of business was constructing new luxury suites, club seats and a state of the art scoreboard. Modell refused to share any of the new revenue generated by the privately financed renovations with the Cleveland Indians the stadiums other tenet. The Indians insisted that the city was favoring the football team by granting them all the luxury seat revenue and demanded a publically subsidized stadium where they could control the luxury suites and club seating revenue.

The city eventually agreed in principal to the Gateway Project that by 1997 would construct Jacobs field for the Indians and Gund Arena for the NBA's Cleveland Cavaliers. Initially Modell believed that his revenues would not be endangered when the Indians left, but shortly after, requested an issue be placed on the ballot to provide a 175 million dollar tax subsidy to renovate Cleveland Stadium. The county refused to accommodate his request and Modell announced later that year during the 1995 football season that he had signed a deal to relocate the team to Baltimore.

After the announcement and impending departure of the Browns, Cleveland was an aging Midwestern city desperate to retain their remaining professional sports teams. Cleveland Tomorrow, an exclusive organization comprised the cities top 50 CEO's, concerned that the city would no longer remain a desirable corporate location and became involved in the Gateway Project. Thomas Vail the publisher of the local newspaper the *Plain Dealer* and founder of Cleveland Tomorrow reflected on the organizations beginnings;

> "It started in the early 1980's aimed broadly at economic development and economic growth of the region. It was an organization keyed up by a study done by a consultant who was contracted by a group of four or five CEO's in town, who said "We are Rust Belt; we are sliding; we need an assessment of where our big gaps are because of economic competiveness.' Cleveland really doesn't have a strategic, powerful, business oriented organization to do this. These Issues are not falling fully within the Chamber of Commerce; they are not fully public agency types of task. We need an organization with some clout to take on these Strategies[31].

Cleveland Tomorrow made securing public financing for the stadium their top priority. Similarly to the Cincinnati Business Committee, Cleveland Tomorrow saw the new stadium as a way to enhance the communities image, helping companies recruit top personnel, and provide some economic spin off for their own corporations.[32] Tom Chema, a local lawyer, was appointed the head of the stadium coalition and along with the CEO's of Cleveland Tomorrow proposed the Gateway Project. The project would include an indoor basketball arena and baseball stadium located in downtown Cleveland. Using focus groups commissioned by the governor, Chema found that the public overwhelmingly opposed a sales or property tax increase, however they were moderately supportive of publically financing the project if the funds came from a "sin" tax on

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[31] Delaney, Kevin, and Rick Eckstein. *Public dollars, private stadiums: the battle over building sports stadiums*. (New Brunswick: Rutgers University Press, 2003), 67-68.
[32] Delaney and Eckstein, 71.

alcohol and tobacco. According to Chema the a sin tax would bring in an estimated 16 million in the first year of implementation and decline over time, with the assumption that the higher tax and other social trends might decrease alcohol and tobacco sales[33].

Chema spent close to a year convincing city commissioners that the sin tax would generate an economic resurgent in the downtown area. The proposal was ultimately placed on the ballot in 1990. At election time the Gateway proposal had an estimated cost of 344 million (Figure 3), which Chema would later acknowledge, was just a guess. In an interview he admitted,

> It is stupid to say a figure because I didn't know. I didn't have a clue what this project was going to cost because we had no money no organization nothing. I didn't have a design, all I knew was that in Chicago and Baltimore they were building stadiums for a certain amount. I took the numbers and ramp it up for inflation for a couple of years and I take a look at labor cost in those cities compared to Cleveland and I put in a function for labor and throw in 20 million for property and voila I get 344 million.[34]

[33] *Ibid, 73.*
[34] Delaney and Eckstein, 73-74

Table 3. Original Financial Plan for the Gateway project

Source of cost and revenues	Amount (in millions)
Anticipated cost	
Stadium construction	110
Arena construction	223
Land acquisition	197
Land for future development	134
Financing and working capital	202
TOTAL	**343.5**
Anticipated Revenues	
Total Private Investments	174
Luxury seats	99.0
Cleveland Tomorrow	20.0
Property loans	38.5
Interest earnings	16.5
Sin tax commitment	169.
Total	**343.5**

After the announcement of the proposed tax increase, early pools showed considerable opposition to the proposal. Citizens in neighborhoods outside the downtown area did not want to see their tax dollars go toward the private stadium rather they generally preferred the money be spent on quality of life projects such as parks, sanitation, public safety and improved school[35]. The poor quality of the public schools was an especially important civic issue in Cleveland. According to some estimates the

[35] Delaney and Eckstein, 75

schools were 150 million in debt and only 8 percent of Cleveland residents would eventually earn a college degree[36].

Opposition for the new tax increases also came from the United Auto Workers union, the tobacco and alcohol industries. The Auto Workers Union feared their manufacturing plants located close to the site of the proposed project would be seized by eminent domain. The tobacco and alcohol industries were understandably concerned that the tax increase would jeopardize their future earning. The proposal reaffirmed working class and poor Clevelanders suspicions that when it came to matters of public policy and decision making in the city, they were the first effected because tobacco and liquor sales fall disproportionally on those with lower incomes. In a trend shown in Cincinnati case study, the groups opposing the tax increase were disorganized with no united front. The lack of resources and political influence could not compare to corporate advocacy groups.

Cuyahoga County commissioners approved a public private partnership to develop the Gateway Project. The 50/50 partnership included 174 million of privately financed commitments to the Gateway Project. To finance the public portion of the 344 million developments the commissioners placed an initiative on the May 8 ballot seeking voter approval of small excise tax on the purchase of alcoholic beverages and cigarettes.[37] Ultimately, a well-run well financed campaign spearheaded by the corporate community convinced the voters that the project was in the community interest and the tax passed by

[36] Delaney and Eckstein, 75.
[37] DeMause and Cagan, 361.

a narrowly 1.2 percent margin.[38] Cleveland Tomorrow lead by Tom Cheam, acting as the main advocates and the city government were able to turn initial public sentiment against tax increase into a vote for tax increase.

With public funding in place designs were completed for the new baseball stadium and basketball arena that increased from the election time estimate of 344 to 430 million. The Cleveland Cavaliers were primary responsible for the increase in cost because the team had been content in their arena in Richfield roughly halfway between Cleveland and Akron. The Cavaliers Owners, the Gund brothers were hesitant to move back to the city because they would lose significant parking revenues. The political realities made the Cavaliers indispensable to the entire project Chema knew who had the leverage. [39]

Another factor contributing to the increased cost was that the Cavaliers paid no rent for their first few years in the arena. The agreement gave the Cavaliers a yearly credit of 1.5 million dollars to compensate for potential losses in parking revenues resulting from moving back in the city. The Cavaliers kept all the parking revenues from the new stadium and applied the yearly credit towards future rent payments. Eventually Gateway was unable to pay the bills. There simply was not enough sin tax revenue to cover the soaring cost of the project. On December 15,1995 the *Cleveland Plain Dealer*

[38] Delaney and Eckstein, 73.
[39] Noll and Zimbalist, 360-365.

reported the total cost would be 148 million which represented a 97.3 percent overrun of the original figure approved by votes.[40]

Table 4. Characteristics of Gund Arena and Jacobs Field [41]

Characteristic	Gund Arena	Jacobs Field
Start date	1991	1991
Opening date	1994	1994
Seating capacity	20,562	42,865
Club seats	2,000	2,04
Suites	92	122
Estimated cost (millions)	75	128
Final estimated cost (millions)	157	180
Overrun (percent)	109.3	40.6
Team Investment (millions)	41.6	63.5

Eventually Gateway was unable to pay the bills. There simply was not enough sin tax revenue to cover the soaring cost of the project. Contractors were not getting paid and many joined together in lawsuit against Gateway Project, the City of Cleveland, and Cuyahoga County, alleging fraud because Gateway was approving expenditures when the

[40] 11. Noll, Roger and Andrew Zimbalist. *Sports, jobs, and taxes: the economic impact of sports teams and stadiums*. (Washington D.C.: Brookings Institution Press, 1997)
[41] Noll and Zimbalist, 361-362

board knew it as out of money. The unpaid bills increased from 12 million to 18 million in just a few months, and after six additional months an internal accounting audit concluded that the total amount of unpaid bills would be 30 million[42].

When the losses surpass 30 million dollars Cuyahoga County was forced to slash its operating budget by 11 percent. In 1995 the a surging economy increased tax revenue generated by the county and as one official explains,

> Your cutting 11 percent where you really needed 9 and the tax revenue are not growing. The economy went bang and took off so the county caught a break. It had a lot of cash and it just wrote a check. I won't say we didn't miss the 30 million but the county was in a very good financial position.
> Orchestrated the allocation of public dollars for private stadia.[43]

The Gateway Project is another example of how private owners used the threat of relocation to secure public financing for public stadiums. Corporate advocacy groups strategically aligned themselves as indirect beneficiaries of the public subsidy and successfully influenced tax initiatives through the local governments.

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[42] .Delaney and Eckstein, 73.

[43] 5. Rosentraub, Mark. *Cost of Professional Sports and Who's paying for it* (New York: Basic Books, 2007): 220-224.

CHAPTER 4

INDIVIDUAL LEAGUE SUBSIDY AND VALUATION DATA

Major League Baseball

Founded in 1869, Major League Baseball is the highest level of professional baseball in the North America composed of thirty teams that play in the National and American League. The American League is contains of fourteen teams compared to sixteen in the National League. Both leagues arrange the teams in the three subdivisions; Central, East, and West. The American and National League began as independent rival corporate entities that meet in an end of the year championship called The World Series. Recently in 2000 the two separate legal entities were formally dissolved forming a single league.

Starting in the early 1990's, Major League Baseball saw a transformation building fourteen new publically financed stadiums for the professional teams benefiting the handful of principal owners. The Los Angeles Dodgers and San Francisco Giants are the only two teams in the league that privately financed their new stadium in the past twenty years. The remaining six professional baseball teams have had no new Stadium built in the last twenty years.

To examine how stadiums built with public subsidies increase in overall valuation over the past twenty years compared to teams with privately financed stadium or no new stadium the league was divided into three categories;**1** Teams with no New Stadium or Arena in last 20 years, **2** Teams with a new Stadium with no public subsidy, **3** Teams with a new publically subsidized stadium. By calculating the average per team valuation increase and actual average dollar increase for each of the three categories the I can compare the figures in the three categories to answer if teams with publically financed stadiums valuations increase faster than those with privately financed or no new stadium at all.

Table 5. Major League Baseball Valuation 1991- 2009

		1991 Valuation (millions)	**2009 Valuation** (millions)	**Percent Change** (Per Team)	(Total)	**Dollar Increase** (Average)
MLB						
	1	850 (6 teams)	3435	302 %	304 %	430
	2	260 (2 teams)	1188	388 %	356 %	464
	3	1415 (14 teams)	5813	317 %	310%	314

Key **1=** No New Stadium or Arena in last 20 years **2=** New Stadium or Arena with no public subsidy **3=** New Stadium or Arena with Public Subsidy

The six teams with no new stadium constructed in the past 20 years, had the lowest per team average valuation increase of 302 percent with an average dollar increase of 430 million per team from 1991 to 2009. The fourteen teams that have built a new stadium in the last twenty years with publically subsidy had a per team average valuation increase of 317 percent and the average dollar increase of 314 million per team. The Los Angeles Dodgers and San Francisco Giants who privately financed their new stadia recorded the highest per team valuation increase of 388 percent as well as the most valuable dollar increase average of 464 million per team.

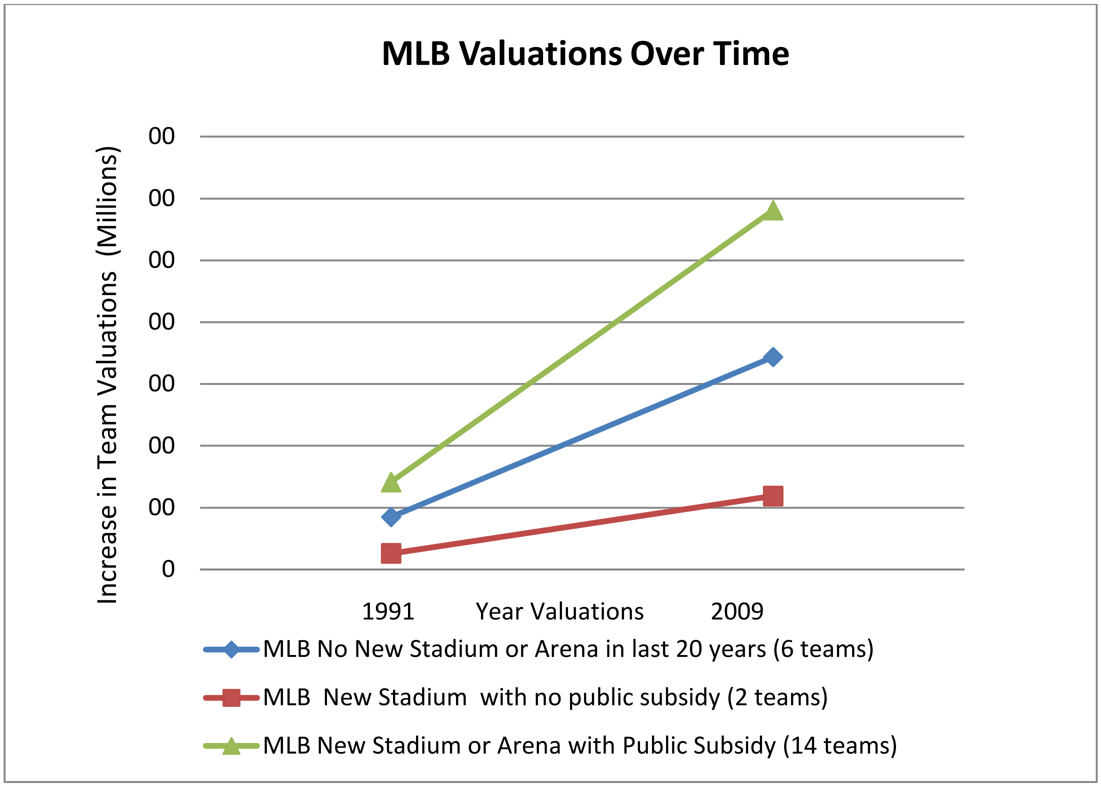


Figure 2. Major League Baseball Valuations Over Time

National Football League

The National Football League founded in 1920 is the highest level of American Football in the United States. The league consists of thirty two teams divided into the American Football Conference and National Football Conference. Each conference is divided into four division containing four teams each. The National Football League is the most attended sports leagues in world with an average fan attendance of 66,960 per game. The National Football leagues television and radio rights are the most lucrative sports broadcasting commodity in the United States with the Super Bowl consistently ranking as the most watched television show of the year.

Similar to the analysis of Major League Baseball to examine how stadiums built with public subsidies overall valuation increased over the past twenty years compared to teams with privately financed stadium or no new stadium the league was divided into three categories;**1** Teams with no New Stadium or Arena in last 20 years, **2** Teams with a new Stadium with no public subsidy, **3** Teams with a new publically subsidized stadium.

Table 6 National Football League Valuations 1991-2009

	1991 Valuation	**2009 Valuation**	**Percent Change**		**Dollar Increase**
	(millions)	(millions)	(Per Team)	(Total)	(Average)
1	1856 (13 teams)	13,597	651 %	632%	903
2	260 (2 teams)	2,364	886. %	806%	1052
3	1488 (12 teams)	12,612	752. %	747%	927

Key 1= No New Stadium or Arena in last 20 years **2=** New Stadium or Arena with no public subsidy **3=** New Stadium or Arena with Public Subsidy

The National Football League teams had the most dramatic increase of the three leagues examined. The thirteen teams with no new stadia in the last 20 years had the least per team average valuation increase of 651 percent with a dollar average dollar increase of 903 million per team. The twelve teams with new publically subsidized stadia had an per team average valuation increase of 752 percent and a average dollar increase of 927 million per team. Lastly the two teams with privately funded stadia had the highest per team average valuation increase of 886 percent with an average dollar increase of 927 million per team.

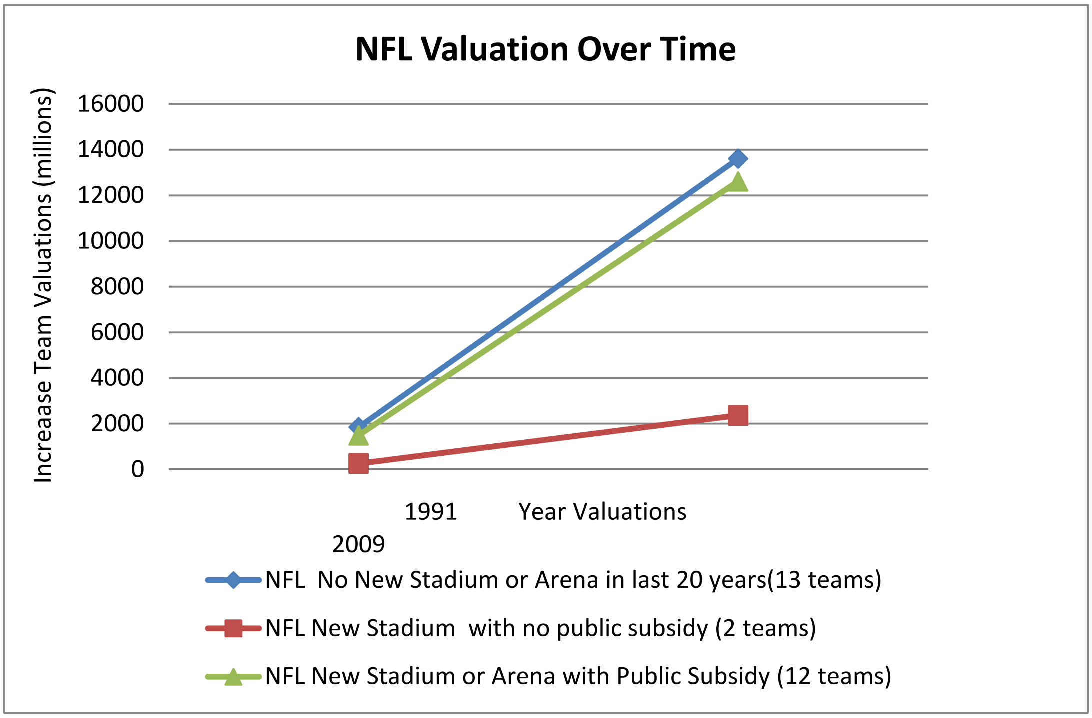


Figure 3. National Football Valuation Over Time

National Basketball Association

The National Basketball Association founded in 1946 is the highest level professional basketball in North America. The leagues consist of thirty franchised clubs, twenty nine in the United States and the Toronto Raptors in Canada. The thirty teams in the National Basketball Association are divided into two conferences the Eastern and Western Conferences. Within each of the two conferences are three divisions with five teams each. During the regular season each team plays 82 games, 41 at home and 41 away. The National Basketball Association is the newest of the three major North American professional sports leagues studied.

Again to examine how stadiums built with public subsidies overall valuation increased over the past twenty years compared to teams with privately financed stadium or no new stadium the league was divided into three categories; **1** Teams with no New Stadium or Arena in last 20 years, **2** Teams with a new Stadium with no public subsidy, **3** Teams with a new publically subsidized stadium.

Table 7. National Basketball Association Valuation 1991-2009

	1991 Valuation	**2009 Valuation**	**Percent Change**		**Dollar Increase**
	(millions)	(millions)	(Per Team)	(Total)	(Average)
1	406 (5 teams)	2012	448 %	394%	321
2	269 (3 teams)	1097	497 %	306%	276
3	1135 (17 teams)	6606	562%	482 %	321

Key **1=** No New Stadium or Arena in last 20 years **2=** New Stadium or Arena with no public subsidy **3=** New Stadium or Arena with Public Subsidy

The National Basketball Association has the least valuable franchise on average of the three professional teams studied. The five teams with no new stadia for the past twenty years had a per team average valuation increase of 448 percent with a actual average dollar increase of 321 million. The three teams with privately financed stadia had a per team average valuation increase of 497 percent and an actual average dollar increase of 276 from 1991 until 2009. Lastly the seventeen teams with new stadium built with public subsidies had the highest per team average valuation increase of 562 percent and a average actual dollar increase of 321 million.

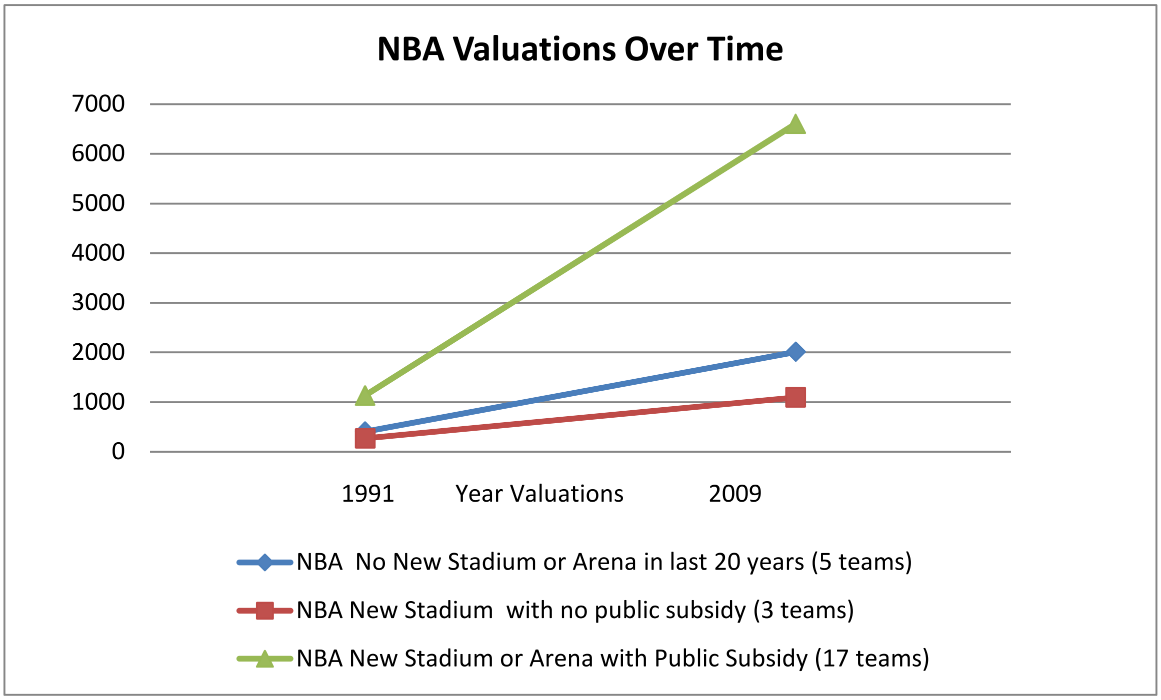


Figure 4. National Basketball Association Valuation Over Time

CONCLUSION

This paper examined the relationship between types of public stadium subsides and professional sport overall valuations for the past twenty years. Valuation estimates were gathered from 1991 until 2009 for each individual team in the three most lucrative professional sports leagues in the world; the National Football League, Major League Baseball, and National Basketball Association. The fundamental question was whether teams with publically subsidized stadiums increase in valuation more than teams with privately financed stadium.

Chapters 2 and 3 focused on the political process behind the new stadium initiatives not just their outcomes. In both cases the sports team who had the most the gain financially did not lead the battles to build the facilities. The generous subsides in both Cincinnati and Cleveland are examples of how non sports corporations can obfuscate their vested interest in the public subsidy and advocate the communities interest. It is clear that publically subsidized sports facilities do not exists because they are financially valuable assets in their own, they exists because most cities have decided that a subsidized team is better than no team at all.

To examine how stadiums built with public subsidies increase in overall valuation over the past twenty years compared to teams with privately financed stadium or no new stadium the league was divided into three categories;**1** Teams with no New Stadium or Arena in last 20 years, **2** Teams with a new Stadium with no public subsidy, **3** Teams with a new publically subsidized stadium. By calculating the average per team valuation increase and for each of the three categories the I was able to test my hypothesis to answer if teams with publically financed stadiums valuations increase faster than those with privately financed stadium.

For Major League Baseball

The average valuation increase for teams with publically subsidized stadiums was 302 percent compared to 388 percent increase for teams with privately financed stadiums, which rejected my hypothesis

For the National Football League

The average valuation increase for teams with publically subsidized stadiums was 651 percent compared to 886 percent increase for teams with privately financed stadiums once again rejecting my hypothesis.

For National Basketball Association

The average valuation increase for teams with publically subsidized stadiums was 562 percent compared to 497 percent increase for teams with privately financed stadiums, which was the only league that confirmed my hypothesis.

For All Leagues

The average valuation increase for teams with publically subsidized stadiums was 590 percent compared to 543 percent increase for teams with privately financed stadiums, which rejected my hypothesis.

Table 8. MLB,NFL, and NBA Average Valuation 1991-2009

	1991 Valuation	**2009 Valuation**	**Percent Change**		**Dollar Increase**
	(million)	(million)	(Per Team)	(Total)	(Million)
1	3112 (24 teams)	19044	467%	443%	551
2	789 (7 teams)	4649	590%	489%	506
3	4038 (43 teams)	24401	543%	513%	520

Key **1=** No New Stadium or Arena in last 20 years **2=** New Stadium or Arena with no public subsidy **3=** New Stadium or Arena with Public Subsidy

From the case studies it is clear that when owners of private teams align themselves with the business interest of corporate advocacy groups and utilize the bargaining advantage secured by the scarcity of teams they are able to secure public subsidies for new stadiums. While the teams with public subsidy did not have a greater percent change increase as much as those with privately financed the stadium, every league the valuation increase percent change was greater when teams had a new stadium with public subsides than when teams had no new stadium.

For Major League Baseball

The average valuation increase for teams with publically subsidized stadiums was 302 percent compared to 317 percent increase for teams with no new stadium in the past 20 years.

For the National Football League

The average valuation increase for teams with publically subsidized stadiums was 651 percent compared to 752 percent increase for teams with no new stadium in the past 20 years.

For National Basketball Association

The average valuation increase for teams with publically subsidized stadiums was 562 percent compared to 448 percent increase for teams with no new stadium in the past 20 years.

For All Leagues

The average valuation increase for teams with publically subsidized stadiums was 543 percent compared to 467 percent increase for teams with no new stadium in the past 20 years.

Figure 9. Percent Change in Valuation From 1991-2009

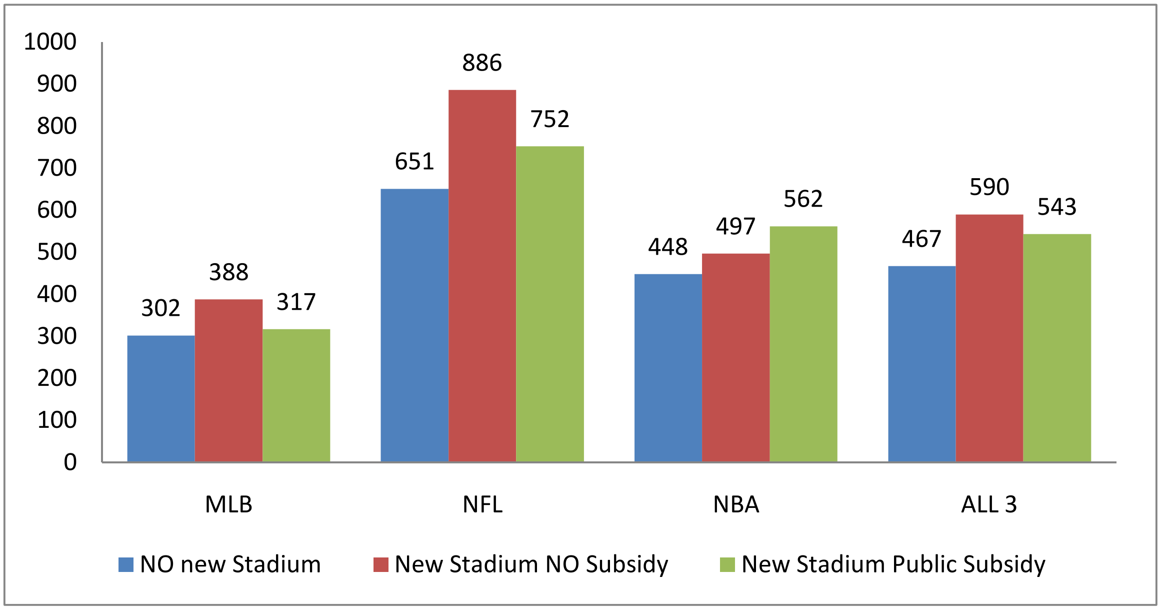
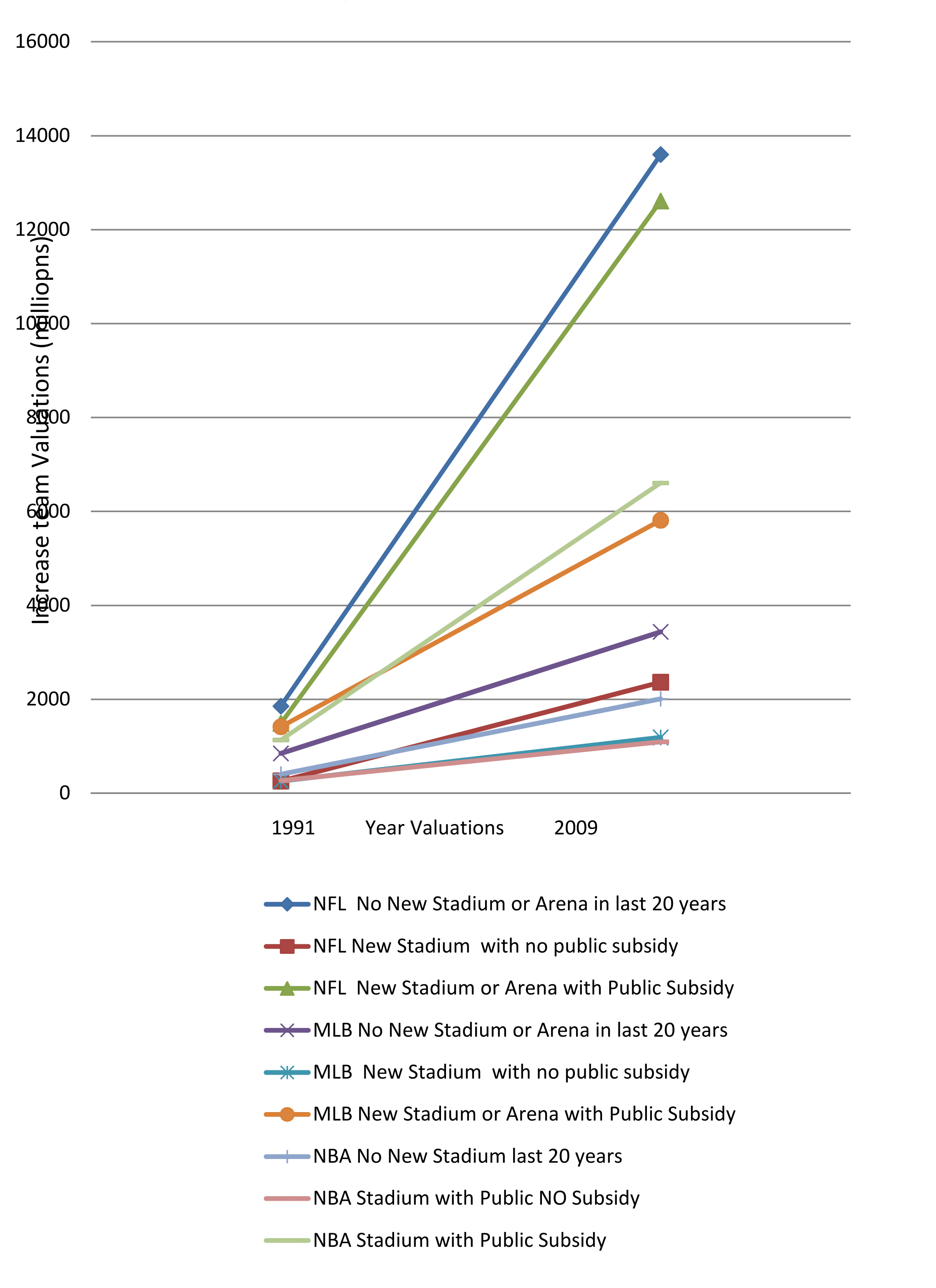


Figure 5. MLB, NFL, NBA Valuations Over Time



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APPENDIX A

Professional Sports Team Valuation over Time

		1991 Valuation (million)	2009 Valuation (million)	Percent Change (Per Team)	Percent Change (Total)	Dollar Increase (Average)
MLB						
	1	850 (6 teams)	3435	302. %	304 %	430
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Key

1= No New Stadium or Arena in last 20 years

2= New Stadium or Arena with no public subsidy

3= New Stadium or Arena with Public Subsidy