MAJOR LEAGUE SPORTS TEAMS

Major League Sports Teams: A Pipe Dream?

A hot topic of public discussion in recent years has revolved around the possibility of bringing a major league sports team to Hampton Roads. Supporters believe a major league team would provide an economic boost, help unify the area, increase pride in Hampton Roads and confer "big league" status on the region. Detractors argue that the economic evidence in favor of big league sports is bogus and a major league team probably would fracture the area as the region's cities debated where the team would be located, and who would receive the benefits and bear the costs. Those opposed to the idea also downplay the psychological benefits of major league teams and consequently assert that precious public-investment dollars would better be used for other purposes.

Regrettably, a considerable portion of the evidence concerning the economic impact of major league sports teams has been contributed by parties who have a vested interest in the matter – those who construct stadiums, team owners who receive a lion's share of the benefits and the major leagues themselves. When analyzed rigorously, most of this evidence is fatally flawed and falls by the wayside. This means the argument for spending public moneys to attract and retain major league sports teams is largely based on pride factors and presumed psychological benefits. It is difficult to measure the value of increased city and regional pride, but as it turns out, that is the primary rationale for spending public funds on major league sports teams. The other reasons wash out on close analysis.

What follows is an evaluation of the economic evidence and a discussion of the psychological and other benefits that accrue from major league teams. The economic arguments occasionally are a bit complex; however, the financial stakes for the region are sufficiently large that even those residents of Hampton Roads without a taste for things economic will find it worthwhile to take the time to understand the rudiments.

Setting The Stage

For many years, some individuals in Hampton Roads have expressed a desire to bring a major league professional sports franchise to the region. Hampton Roads does not host a team in any of the four major professional sports (baseball, basketball, football and hockey), and many residents and civic leaders have viewed this as a regional shortcoming. The Hampton Roads Partnership, a group of business, political and educational leaders, has focused efforts on attracting a major league baseball (MLB) franchise, though it is not averse to other possibilities. Norfolk Mayor Paul Fraim, while not opposed to MLB, believes a National Basketball Association (NBA) franchise makes the most sense. Based on commonly accepted criteria, can Hampton Roads support either an MLB or NBA team? If so, does the investment in professional sports make sense?

Hampton Roads Compared To Other Regions

Geographers and economists have developed something called Central Place Theory (CPT), which says the role of cities is that of service centers, and the spacing of cities and their populations determines the range of activities the cities offer. We pay attention to CPT because it does an excellent job explaining the location of sports franchises in the United States.

According to CPT, the "highest-order places" in the North American urban hierarchy belong to those cities with the greatest populations. CPT and population densities arguably explain the location of sports franchises in the United States through the 1980s. Using 1990 census data, geography professors Jonathan Comer (Oklahoma State University) and Tracy Newsome (University of South Florida) reported in 1998:

"New York City represents the only 'first-order place' in the United States. It has the nation's largest catchment, or market area, in terms of population, and it also has the largest number of teams with nine… The six 'second-order' places, Los Angeles, Chicago, San Francisco, Philadelphia, Boston, and Detroit, all host at least one team in each of the four leagues, and the 17 'third-order' places, ranging from Washington, D.C.-Baltimore as the largest, to New Orleans as the smallest, have at least one team and usually two to four."

The top three urban levels arguably have reached the saturation point with regard to professional sports. As a consequence, leagues seeking to expand and teams seeking to relocate have considered "fourth-order" places such as Jacksonville, Raleigh, Charlotte and Nashville. Diffusion of professional sports teams will likely continue. The salient question is this: What place does Hampton Road occupy in the "demographic standings" among those Metropolitan Statistical Areas (MSAs) cited as contenders for an MLB or NBA franchise? Table 1 provides information on populations for the "contending cities," and selected cities that are cited as small markets relative to other cities that host MLB.

TABLE 1

Populations of MSAs Cited as Candidates for MLB Franchises or Selected MLB MSAs Categorized as Small Markets[a]

City	Population[b]	U.S. Rank[c]
Buffalo	1,151,490	49
Charlotte	1,382,548	42
Greensboro	1,167,651	47
Las Vegas	1,320,563	44
Orlando	1,502,837	39
Portland	1,820,007	27
San Bernardino	3,116,675	11
Washington	4,661,308	6
Norfolk	**1,550,455**	**35**
Kansas City	1,737,234	28
Milwaukee	1,459,602	41
Pittsburgh	2,345,139	19
Seattle	2,311,563	21
Tampa Bay	2,254,405	22

[a] The cities identified in this table as the most suitable for MLB expansion were based on information compiled by Street & Smith. Source: Street & Smith's *SportsBusiness Journal*, February 28-March 5, 2000, p. 59.

[b,c] Source: Regional Economic Information System. http://fisher.lib.virginia.edu/reis/. The data are for 1998.

The information contained in Table 1 indicates that if population was the sole criterion, Hampton Roads currently occupies fourth place in what might be termed the nine-member MLB "Aspirants League" – cities that don't have teams, but want them. Of course, factors other than population come into play. Each of the cities has deficiencies, as does Hampton Roads itself. Washington, D.C., for example, is within a long home run of Baltimore, while Portland is less than 200 miles from Seattle. In addition, Washington, D.C., has two strikes against it since it has failed to support MLB on two previous occasions.

Lurking in the background, however, is the possibility that significant financial disparities between the so-called "large market" and "small market" clubs in MLB may lead to the elimination of teams and the leagues becoming smaller. Thus, rather than moving into a period of net expansion, MLB may be moving into a period of net contraction, where the only way a city might acquire a new team is via the movement of an existing franchise. Further, MLB may not be looking to expand into "small market" regions such as Hampton Roads. It's true that more people reside in Hampton Roads than in Milwaukee, but there is not any other MLB MSA with fewer people than Hampton Roads. The Brewers will not be leaving Milwaukee any time soon since a

new stadium, Miller Park, was opened in 2001, and the city also is home to MLB commissioner Bud Selig. MLB teams in Minneapolis, Tampa Bay and Miami seem the most intent on relocating, but the owners' threats to leave each of these communities may only be part of a periodic ritual relating to MBL teams extorting public dollars to finance new stadium construction or to negotiate more lucrative contracts from cities and regions. The bottom line is this: While Hampton Roads looks good when compared to other cities in the "Aspirants League," it would be a "small market" MLB franchise at a time when expansion prospects seem minimal and several "small market" MLB franchises appear to be in trouble.

As noted above, Hampton Roads may also be interested in pursuing an NBA franchise. How does its population compare to other cities that are generally identified as serious contenders for an NBA franchise? In Table 2, populations and population ranks are recorded for those MSAs generally thought to be ripe for NBA expansion or relocation.

TABLE 2

Populations of MSAs Cited as Candidates for NBA Franchises or Selected NBA MSAs Categorized as Small Markets[a]

City	Population[b]	U.S. Rank[c]
Memphis	1,092,414	54
Louisville	998,858	61
Grand Rapids	1,038,717	58
Rochester, N.Y.	1,080,798	55
New Orleans	1,306,429	45
San Diego	2,766,123	14
St. Louis	2,561,646	17
Kansas City	1,737,234	28
Hampton Roads	**1,550,455**	**35**
Milwaukee	1,459,602	41
Sacramento	1,554,237	34
San Antonio	1,540,113	36
Indianapolis	1,518,828	37

[a] The cities identified in this table as the most suitable for MLB expansion were cited in: Street & Smith's *SportsBusiness Journal*, February 28-March 5, 2000, p. 59.

[b,c] Source: Regional Economic Information System. http://fisher.lib.virginia.edu/reis/. The data are for 1998.

Among those cities or regions that never have had an NBA franchise and are contending for one now (Grand Rapids, Hampton Roads, Louisville, Memphis and Rochester), Hampton Roads leads the population standings. In fact, the population of the Hampton Roads MSA exceeds that of Milwaukee, San Antonio and Indianapolis, and is nearly equal to that of Sacramento, all of which are cities that currently host NBA franchises.

Recent statistics indicate professional sports require not only large populations, but also people with significant discretionary income. In a recent issue of American Demographics, an analyst observed:

> "…Today, baseball is a sport for the well-off. The likelihood of attending a baseball game increases steadily with household income. Twenty-one percent of adults with household incomes of $75,000 (the upper limit for the fourth quintile was $64,300 in 1992) or more attend baseball games making them 72 percent more likely than the average to do so.
>
> "Other major sports also have an upscale audience. Football, basketball and hockey all have above-average attendance rates among those with household incomes of $40,000 or more.

"Baseball's customers are much more upscale than they were ten years ago. People with household incomes of $50,000 or more were more likely in 1995 than in 1985 to attend baseball games."

Table 3 provides information on per capita incomes for cities that are considered strong contenders for an MLB presence.

Hampton Roads does not fare well in the income rankings. In absolute terms, the region possesses per capita income greater only than that of San Bernardino among those cities identified as potential MLB hosts. Hampton Roads trails small-market cities that actually have teams by a minimum of 13.6 percent.

TABLE 3

Per Capita Incomes of MSAs Cited as Candidates for MLB Franchises and Current MLB MSAs Categorized as Small Markets[a]

City	Per Capita Income[b]	Per Capita Income as a Percentage of Per Capita Income for the Top 318 MSAs in the United States
Buffalo	$25,654	101.1%
Charlotte	$28,784	113.4%
Greensboro	$27,283	107.5%
Las Vegas	$27,780	109.5%
Orlando	$25,555	100.7%
Portland	$29,430	116.0%
San Bernardino	$21,300	83.9%
Washington	$36,043	142.0%
Hampton Roads	**$23,771**	**93.7%**
Kansas City	$28,473	112.2%
Milwaukee	$30,582	120.5%
Pittsburgh	$28,149	110.9%
Seattle	$36,854	145.2%
Tampa Bay	$27,224	107.3%

[a] The cities identified in this table as the most suitable for MLB expansion were cited in: Street & Smith's *SportsBusiness Journal*, February 28-March 5, 2000, p. 59.

[b] Source: Regional Economic Information System. http://fisher.lib.virginia.edu/reis/. The data are for 1998.

What about the NBA? The per capita income evidence here is similarly discouraging. Consider Table 4, which records per capita income data for potential and current small-market cities.

Hampton Roads' MSA does generate per capita income equivalent to San Antonio, a current NBA host city. However, as a region, Hampton Roads does not compare favorably to all other potential host cities or current small-market clubs in terms of per capita income.

TABLE 4

Per Capita Incomes of MSAs Cited as Candidates for NBA Franchises and Current NBA MSAs Categorized as Small Markets[a]

City	Per Capita Income[b]	Per Capita Income as a Percentage of Per Capita Income for the Top 318 MSAs in the United States
Memphis	$27,511	108.4%
Louisville	$27,749	109.4%
Grand Rapids	$26,694	105.2%
Rochester, N.Y.	$27,390	107.9%
New Orleans	$25,225	99.4%
San Diego	$27,657	109.0%
St. Louis	$29,089	114.6%
Kansas City	$28,473	112.2%
Hampton Roads	**$23,771**	**93.7%**
Milwaukee	$30,582	120.5%
Sacramento	$27,232	107.3%
San Antonio	$23,800	93.8%
Indianapolis	$29,022	114.4%

[a] **The cities identified in this table as the most suitable for MLB expansion were cited in: Street & Smith's *SportsBusiness Journal*, February 28-March 5, 2000, p. 59.**

[b] **Source: Regional Economic Information System. http://fisher.lib.virginia.edu/reis/. The data are for 1998.**

Whether it is MLB or the NBA, then, Hampton Roads is less attractive because of its low regional per capita income. To some extent, this reflects the reality that most Southern states still lag other parts of the country in terms of most measures of economic activity. True, the gap between the South and other sections of the country has gradually been closing, but the opposite has occurred in Hampton Roads for a considerable period of time. Consider this: While population in the United States grew about 13 percent between 1990 and 2000, and more than 14 percent in Virginia, it increased only 7.68 percent in Hampton Roads. Income growth in the 1990s was similarly stagnant in Hampton Roads. Nationally, per capita income grew 4.29 percent in the 1990s, and 4.26 in Virginia, but only 3.69 percent in Hampton Roads. Professional sports leagues emphasize market potential as much as current economic conditions in determining cities suitable for expansion or relocation. Growth trends do not constitute a plus for Hampton Roads. The deceleration of Hampton Roads' population and economic activity is a disadvantage for the region.

Additionally, whether a major league sports franchise makes sense for an area depends in part on how close that area is to other areas that already host major league teams. For example, any consideration of a major league baseball franchise for the Washington, D.C., region must take into account the presence of the Baltimore Orioles 45 miles away. Proximity to other franchises can be analyzed in terms of the driving distance to cities that currently host competitive franchises. Driving distance reflects the impact of nearby franchise competition on both attendance and media attention. This reality is recognized through the extraordinary franchise fees currently paid by league aspirants. How does Hampton Roads rate in terms of proximity to the other professional sports franchises?

TABLE 5

Driving Distances to Nearest Franchises for Urban Areas Cited as Candidates for MLB Franchises

City	Driving Distance to Nearest MLB Franchise (City – Miles)	Driving Distance to Nearest Professional Sports Franchise (City – Miles)
Buffalo	Toronto – 105	Buffalo (NFL) – 0
Charlotte	Atlanta – 240	Charlotte (NBA) - 0
Greensboro	Atlanta – 331	Charlotte (NBA) - 91
Las Vegas	Los Angeles – 272	Los Angeles (MLB) -272
Orlando	Tampa Bay – 84	Tampa Bay (MLB) - 84
Portland	Seattle – 174	Portland (NBA) – 0
San Bernardino	Anaheim – 48	Anaheim (MLB) - 48
Washington	Baltimore – 45	Washington (NBA) – 0
Hampton Roads	**Baltimore – 242**	**Washington (NBA) – 197**
Kansas City	Not applicable	Not applicable
Milwaukee	Not applicable	Not applicable
Pittsburgh	Not applicable	Not applicable
Seattle	Not applicable	Not applicable
Tampa Bay	Not applicable	Not applicable

Source: Rand McNally Road Atlas, United States and Canada, 1994.

The information in Table 5 indicates that the Hampton Roads MSA is located farther from any other MLB MSA than all of the cities in the "Aspirants League" except Las Vegas and Greensboro. In considering the driving distance to an MSA that already hosts a franchise in any one of the major sports leagues, only Las Vegas is farther. Thus, a major league sports franchise in Hampton Roads likely would not be seriously disadvantaged by nearby major league sports competition.

Taking into account all of the information contained in Tables 1 through 5, it is apparent Hampton Roads clearly ranks among the leading contenders for an MLB or NBA franchise. This assessment echoes the conclusions reached by Street & Smith. Street & Smith devised a city-by-city rating of sports capacity based on total personal income for 172 MSAs and a measure of total personal income necessary to support a franchise in MLB, the NBA, the National Football League (NFL), the National Hockey League (NHL) and Major League Soccer (MLS). On a scale of 0 to 100, where a score of 100 indicated that the MSA was capable of hosting a franchise in the professional sport, Hampton Roads scored 84, 100, 100, 100, and 100, respectively, for MLB, NFL, NBA, NHL and MSL. The score of 84 for MLB ranked third among MSAs without an MLB team, and was exceeded only by Grand Rapids, Mich. (90), and Orlando, Fla. (91). Of course, since all of these MLB scores are less than 100, Street & Smith concludes that no city in North America (with the possible exception of Washington, D.C.) has the circumstances currently necessary to support an MLB team. MLB, then, has expanded just about as far as is economically feasible. Washington, D.C.'s, proximity to Baltimore (45 miles) indicates that Baltimore would have to agree to a franchise in Washington, since such a franchise would encroach on its media market.

Based on conventional criteria, then, Hampton Roads would appear to be a leading contender for a new major league sports franchise of some kind. Unfortunately, the devil is in the details, and a closer examination of the region's situation suggests several significant problems distinctive to the area.

Two issues in particular merit discussion. First, the geography of Hampton Roads is unique among the aspirants for an MLB franchise. Water is ubiquitous in the region and separates most cities and counties from each other. The question of the stadium location takes on particular significance since some proportion of peak stadium traffic would have to use the bridges and tunnels

that connect the communities. Second, Hampton Roads includes several large communities that value their separate identities. The communities tend toward political autonomy, and that may prove an impediment to the development of a fan base beyond the community in which the stadium is located. If the communities are considered separately, then no single Hampton Roads community ranks above the 70th position in the U.S. urban hierarchy.

Hampton Roads has a transportation system that by most measures already is stressed and hence would have difficulty supporting a typical major league franchise. In addition, as Hampton Roads develops economically, a greater number of cars will be on the road. Projections for growth in the number of vehicles and miles traveled are sobering. The Hampton Roads Planning District Commission has projected average annual growth rates over the period 1995 to 2015 of .79 percent for population, 1.74 percent for automobiles and 2.59 percent for vehicular miles traveled. These estimates do not include the additional stress that a professional sports team would add, in some instances at peak travel times.

If a smallish, 40,000-seat MLB stadium were built somewhere in Hampton Roads, and if there is one car for every four seats in the ballpark, then 10,000 additional cars would compete for space on the roads before and after games. The Hampton Roads Planning District Commission has estimated that there will be 90,000 person-trips per day across the Hampton Roads Bridge-Tunnel in 2010. Suppose half of the stadium traffic flowed one way or the other. Then, traffic would increase by more than 5 percent across the critical bridges and tunnels connecting the Peninsula and the South Side. **Traffic bottlenecks have proven irksome even for cities that host professional sports teams with a more accommodating geography. If the additional stadium traffic could not be absorbed easily, then congestion on the roads would likely have adverse implications for attendance at games and the viability of a professional sports franchise in the area.**

The Hampton Roads Planning District Commission has estimated it would cost $3.7 billion alone to improve traffic in two corridors critical to major league sports: widening and improving Interstate 64 ($1.3 billion) and constructing a third crossing from Newport News to Norfolk ($2.4 billion). Would these improvements accommodate the additional traffic on game day, and if not, what would it cost to accommodate peak game-day traffic flows? Would the team identify the potential problem and require more convenience for its fans? If so, what would it cost Hampton Roads to provide the infrastructure that professional sports teams commonly demand of their host cities?

Hampton Roads includes six cities with populations in excess of 100,000 (Chesapeake, Hampton, Newport News, Norfolk, Portsmouth and Virginia Beach). Nearly all are separated in some way by the waters of the Chesapeake Bay, or the Elizabeth, James or York rivers. Charitably, one can observe that this has fostered separate identities, making the cities less united and less contiguous than the miles separating them would suggest. The construction of a major sports facility requires cooperation, particularly as it relates to financing. If the area cities and counties already view themselves as autonomous, then it is difficult to envision how they would manage the political divisions that are inherently a part of large public projects. Stadium site selection is contentious even in the most homogeneous communities. Would the good burghers of Chesapeake willingly support a stadium constructed on the Peninsula? Would Virginia Beach's citizens support a stadium located in Norfolk? Alas, past history is not encouraging on this matter.

Public funding for stadium projects is often rationalized by noting that a ballpark serves as a catalyst for economic development. Increased economic activity is arguably most apparent in the neighborhood in which the stadium is located. If citizens from Hampton attend a game at a stadium in Norfolk, then Hampton is, *de facto,* taxed twice – first through increased taxes to fund the project, and second through entertainment spending which is diverted from Hampton to Norfolk. Richard F. Kiefner, an area businessman and noted sports fan, opined:

> "No one city of this metro area could build a facility by itself, and this area historically has not been able to act rationally. We have 15 municipalities and approximately 113 city council people, and each has an agenda. We can't get a cohesive, agreeable consensus, because what someone might perceive as excellent for Norfolk doesn't help Suffolk. If something happens in Hampton, a politician in Virginia Beach says, 'So what? Doesn't affect me at all.' "

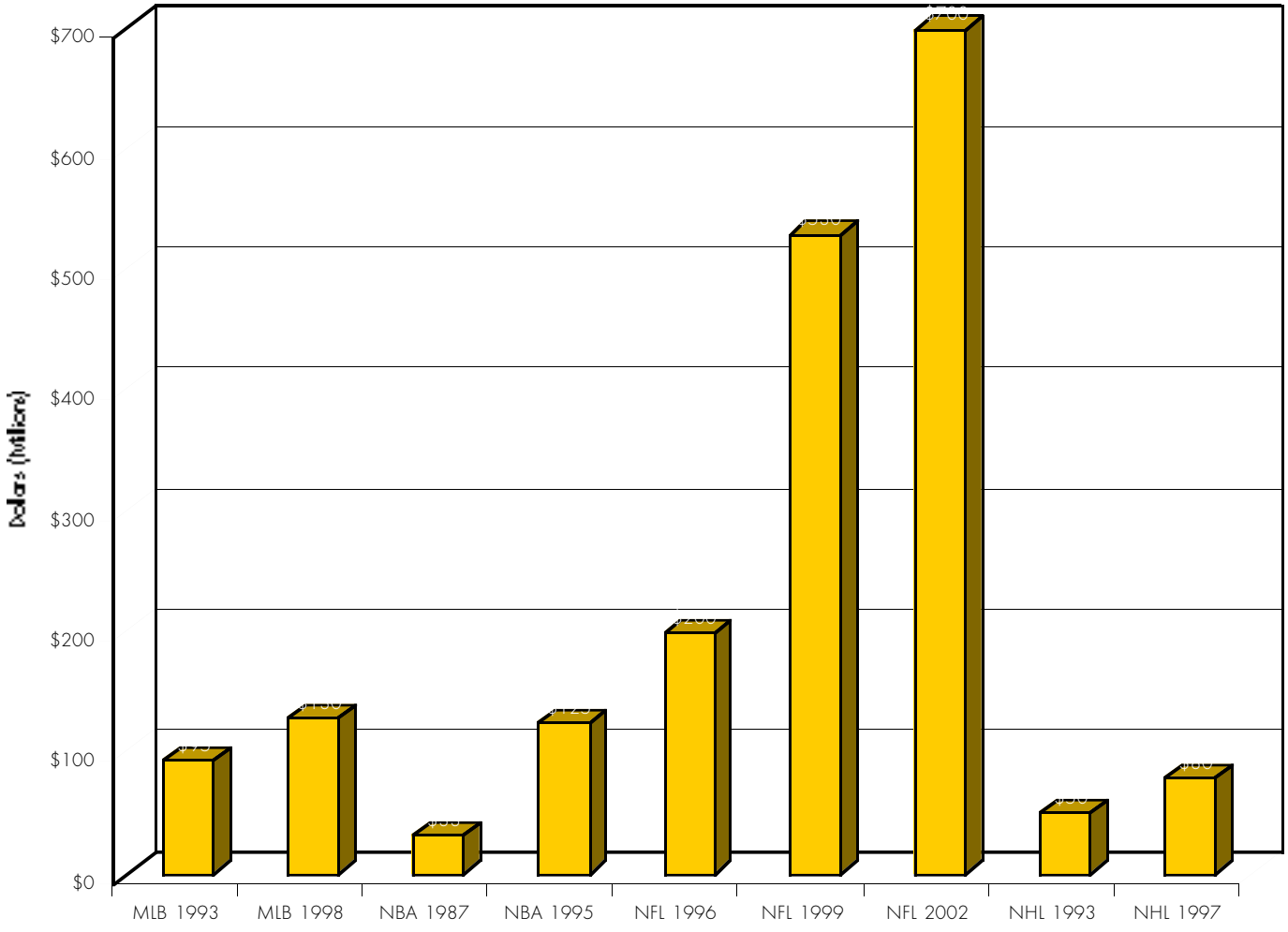
The Major Costs Of A Major League Sports Franchise

Hosting a professional sports franchise requires significant financial resources, both to acquire a team and to sustain it. The primary costs include: (1) the franchise fee; (2) the playing facility; (3) start-up costs; (4) ancillary facility infrastructure; and (5) opportunity costs (sacrificed public alternatives). The analysis in this section focuses on the acquisition costs for an MLB franchise, though other major leagues are considered.

FRANCHISE FEES

Franchise fees have increased substantially since the latter 1980s. Several circumstances account for this trend: (1) significant appreciation in equity markets (even taking into account recent stock market reverses); (2) the continuation of generous government subsidies for sports stadiums; and (3) large television contracts for the NFL and NBA. Graph 1 provides information on franchise fees for the most recent expansions in the four major professional sports leagues.

GRAPH 1
FRANCHISE FEES ASSESSED NEW TEAMS FOR THE MOST RECENT EXPANSIONS IN THE FOUR MAJOR PROFESSIONAL SPORTS LEAGUES IN THE UNITED STATES



Sources: Various team and league publications for selected years.

The Arizona Diamondbacks and the Tampa Bay Devil Rays paid a $130 million franchise fee to begin play in MLB in 1998. By way of contrast, the Florida Marlins and Colorado Rockies paid only $95 million in 1993. Using these two data points, franchise fees in MLB are increasing by 42 percent every five years. If this trend continues, and MLB expands once again in 2005, the franchise fee would be approximately 59 percent greater than in 1998, or $207 million.

NBA franchise fees have increased even more rapidly than in MLB. The Vancouver Grizzlies and Toronto Raptors paid a $125 million franchise fee when they entered the NBA in 1995. The NBA approved expansion by four teams in 1987 (two teams began play during the 1989-90 season and the other two during the 1990-91 season), and each paid a franchise fee of only $32.5 million. Thus, over the period 1987 to 1995, franchise fees in the NBA increased 300 percent. The NBA has struggled somewhat since the retirement of Michael Jordan, and another three-fold increase in franchise fees for a team to begin play in 2003 seems unlikely. A more realistic estimate of an NBA fee for the next expansion approximates $250 million.

The NFL has exhibited significant increases in franchise fees in the 1990s. In 1996, Jacksonville and Carolina each paid $167 million outright, but $200 million if their reduced share of television revenue is included. In 1999, Cleveland paid $530 million, and Bob McNair will ante up $700 million for the new Houston franchise that will begin play in 2002.

The appreciation in franchise values in the NHL, although less spectacular, is nonetheless substantial. The franchise fee for NHL expansion in 1993 was $50 million. To participate in NHL play for the 1998-99, 1999-2000, and 2000-01 seasons, Nashville, Atlanta, Minneapolis-St. Paul and Columbus each paid $80 million. This represents a more modest 60 percent increase.

The actual amount Hampton Roads would pay for a franchise in any of these leagues would depend on when the team commenced play, the number of other cities that bid for the same franchise, the health of the economy and market conditions in the professional sports industry, particularly as they related to television ratings at the time of negotiations. **Based on the history of franchise fees and current market conditions, reasonable estimates are that in a future year, say 2005, the owners of a Hampton Roads team would pay in the vicinity of $200 million to $250 million for either an NBA or MLB franchise, $700 million to $800 million for an NFL franchise and a "modest" $100 million for an NHL franchise.**

START-UP COSTS

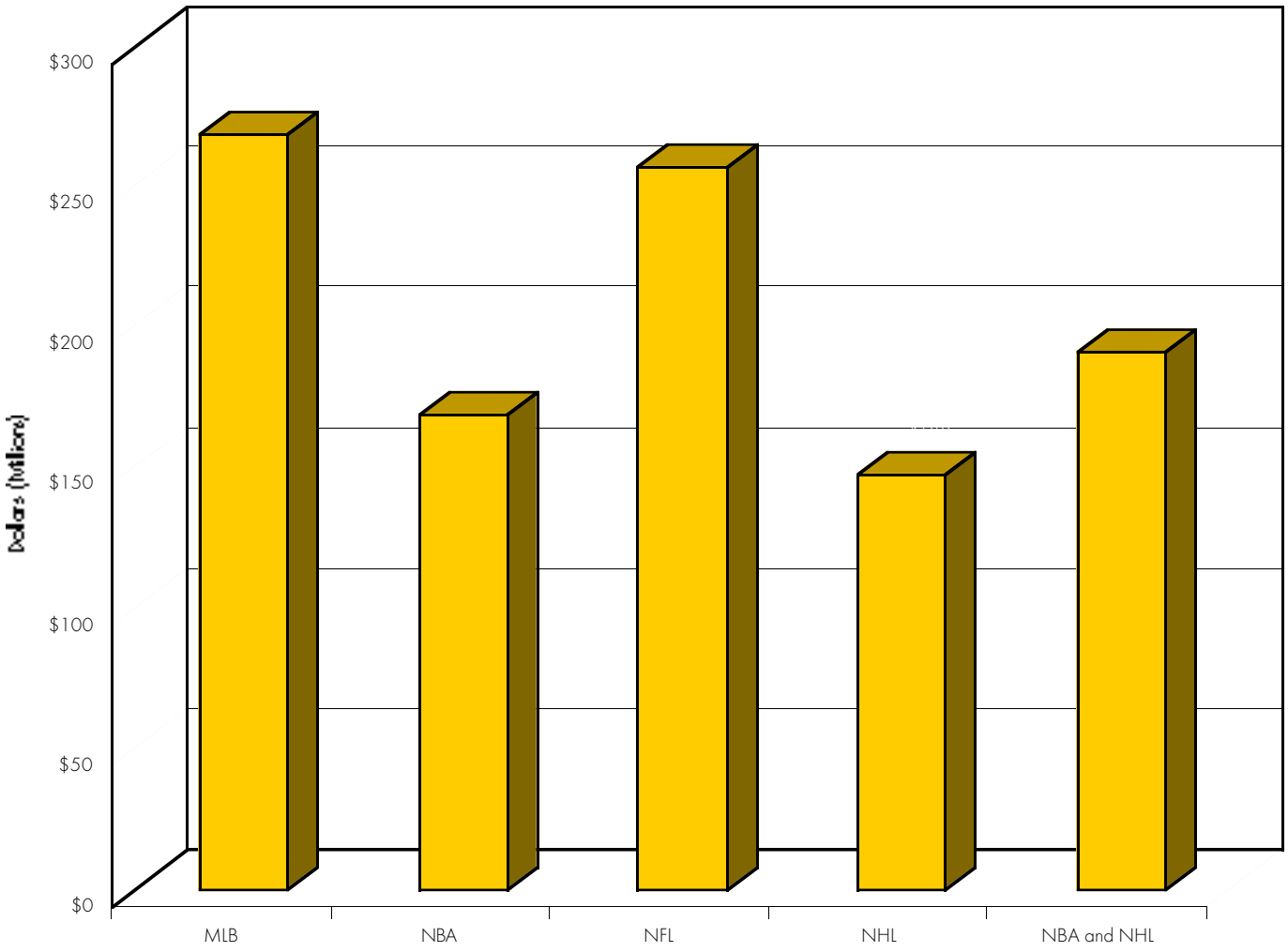
But, the costs don't stop there. Start-up costs would likely equal another $60 million to $100 million, with the lower figure applicable to basketball. Baseball requires a farm system and spring training facilities in either Florida or Arizona. Basketball does not require a farm system since players are drafted out of college or high school, but does expend large sums of money on scouting and promotion. Other start-up costs include personnel, offices and advertising.

It appears, then, that the cost of acquiring a major league team might be expected to approximate the sum of the franchise fee and start-up costs for an expansion team. However, acquiring existing teams nearly always costs substantially more. The primary reason is the bidding process that typically surrounds teams that are thinking about moving. Community pride tends to generate a type of "auction fever," and cities currently hosting a franchise ante up to keep that franchise, whether or not that action makes economic sense. Teams thinking about moving always entertain offers from other communities, though sometimes such shopping is part of a deliberate strategy to wring financial concessions from their current hosts, particularly as it relates to new stadium construction. Even George Steinbrenner and the New York Yankees have not been above threatening to move their historic franchise if New York City does not provide it with significant concessions.

COST OF CONSTRUCTING A STADIUM

It is an understatement to observe that new stadiums cost lots of money. Recent history indicates that baseball parks are the most expensive major league sports facilities to build. Graph 2 provides information on average facility construction costs for the four major professional sports.

GRAPH 2
AVERAGE FACILITIES CONSTRUCTION COSTS FOR THE FOUR MAJOR PROFESSIONAL SPORTS FROM 1990 TO 1997



Source: Forbes Magazine

Between 1990 and 1997, new MLB stadiums cost an average of $269 million. Comparatively speaking, NBA arenas were a bargain. The average cost incurred in constructing an arena for NBA basketball was $100 million less. Evidence from the 1990s also indicates that taxpayers shouldered 77 and 31 percent of the construction costs, respectively, for new MLB and NBA facilities. If Hampton Roads had adopted an MLB team four years ago and if the averages identified here applied, taxpayers would have spent approximately $207 million to build a baseball stadium in 1997. In 2005, a $300 million to $400 million figure could be anticipated.

Even given the rosiest scenario, it is unlikely MLB could play in Hampton Roads prior to 2005, and by then a new stadium would be even more expensive. Both Milwaukee and Seattle built retractable dome stadiums in the past two years, and Safeco

Field in Seattle (2000) and Miller Park in Milwaukee (2001) cost $517.6 million and $399.6 million, respectively. **A ballpark without a dome, but with the amenities demanded by teams and corporate sponsors that pay for naming rights, would cost in the neighborhood of $300 million. This translates to a $231 million contribution in public funds, if one uses the 77 percent average public contribution cited above.** The financial dynamics are such in professional sports that teams insist on state-of-the-art facilities because of their impact on revenue generation.

Before Hampton Roads would be awarded an expansion franchise or an established team that decided to relocate, it would have to convince MLB that it would meet the rather high standards MLB has set with regard to revenue generation. It is highly unlikely that Hampton Roads would be approved for inclusion in MLB with a plan for a "vanilla" stadium that could still be built for less than $200 million. Bud Selig, MLB's commissioner, is an advocate of comprehensive revenue sharing arrangements, and it is highly unlikely that MLB would award franchises to teams that could not pull their financial weight. Consolidation (elimination of teams) in MLB is being considered at this point precisely because some teams are thought of as "poor cousins" rather than equal partners. Another concern is some teams that receive league subsidies would not spend these funds in a manner the league would prefer – that is, acquiring better players – but would pocket the money.

Facility costs necessary for joining the NBA likely would be more modest. New arenas built in Atlanta (1999) and Miami (2000) cost $213.5 million and $212 million, respectively. **If the Atlanta and Miami facilities are representative of regional construction costs, an arena in Hampton Roads suitable for the NBA in 2005 would cost approximately $250 million. If the public sector in Hampton Roads funded 31 percent of the stadium construction costs, then the community would pay $77.5 million for the facility.** (This figure is extremely conservative. The 31 percent public funding average in the 1990s has been skewed by the Fleet Center in Boston, which was built with no public funding. More representative of the public contribution is the Phillips Center in Atlanta in 1999. That facility was 81 percent publicly financed. For cities seeking an NBA franchise, the public would likely shoulder a larger portion of the construction costs as part of the deal to secure the franchise.)

Another potential cost advantage for an NBA arena is that such a facility could accommodate hockey without compromising the sight lines for either sport. The sight lines in baseball, on the other hand, are unique – a baseball stadium cannot accommodate another spectator sport without compromising viewing. In fact, MLB has stated that no franchise will be awarded to a city that does not have a "baseball only" stadium. The adoption of an NBA team, therefore, offers potential economies of scale, where the facility is concerned, that is not currently possible in hosting an MLB team. This potential, however, has not always been exploited. Different ownership groups in the NBA and NHL in the same city have been successful in convincing their host community to provide separate venues. Exclusive facilities, teams contend, allow them to generate revenues sufficient to sign the players necessary to compete. It should be noted, however, that if all teams build state-of-the-art venues, then the financial advantage a new stadium provides is eliminated. What is true for an individual team is not true for the sum of teams.

RELATED FACILITY AND LOCATION COSTS

Many other things are necessary to make a stadium operational from the team's point of view. In particular, roadways and parking lots have to be modified or constructed, and the site has to be prepared. Site preparation can run into the tens of millions of dollars if there are environmental problems such as contaminated soil or water at or near the stadium's surface. In addition, host communities often provide land at or below market value, or offer tax abatement, as part of a package to attract the team. Based upon the experience of other cities, it is reasonable to assume the public "other infrastructure" subsidy would equal $100 million for an MLB franchise and $50 million for an NBA team. (This estimate is, again, conservative, given the special infrastructure needs imposed by the ubiquity of water in Hampton Roads. Phillips Arena in Atlanta incurred $62 million in infrastructure costs, which will be financed by a car rental tax.)

OPPORTUNITY COSTS: SACRIFICED REGIONAL ALTERNATIVES

Opportunity cost boils down to this question. What is the best alternative use of the public funds that might be spent on a major league team? That is, what else could the region do with such funds and how valuable is the best "other" choice? If the rate of return on the operation of the professional sports team exceeds that of the next best alternative, then the public subsidy necessary to host a team does represent the best use of those funds. If not, the investment should not be made.

The rate of return on an investment in professional sports depends substantially on the economic growth induced by the teams. The increase in economic activity a community reasonably can expect from a major league team is considered in the next part

of this report. In any case, in principle, one must compare the productivity of an investment in a major league sports team with investments a city or region might make in items ranging from K-12 schools, university research parks, medical facilities, parks and recreation, increased police and law enforcement, and so forth.

SUMMARIZING THE COSTS

A summary of the costs both the private and public sectors in Hampton Roads reasonably could be expected to incur in attracting either an NBA or MLB team is represented in Table 6. Costs are based on the preceding discussion.

TABLE 6

REASONABLE ESTIMATES OF THE PUBLIC SUBSIDIES NECESSARY TO ATTRACT MLB OR NBA TEAMS TO HAMPTON ROADS

Statistic/Sector	Total ($ millions)	Public ($ millions)	Private ($ millions)
Franchise Fee – MLB	$200	$0	$200
Stadium Construction – MLB	$300	$230	$70
"Other Infrastructure" – MLB	$100	$100	$0
Start-up Costs – MLB	$100	$0	$100
Total for MLB	**$700**	**$330**	**$370**
Franchise Fee – NBA	$200	$0	$200
Stadium Construction – NBA	$250	$77.5	$172.5
		($202.5)[a]	($47.5)[a]
"Other Infrastructure" – NBA	$60	$60	$0
Start-up Costs – NBA	$50	$0	$50
Total for NBA	**$510**	**$133.5**	**$388**
		($262.5)[a]	($297.5)[a]

Sources: (1) 2000 National Sports Law Institute of Marquette University Law School, Appendix 2 to Sports Facility Reports, Volume 1, Number 1. (2) Forbes Magazine

[a] This figure assumes the public sector will assume 81 percent of the stadium construction costs, as was the case in the construction of Phillips Arena in Atlanta in 1999.

As Table 6 indicates, Hampton Roads' best bet is to attract an NBA team. A low estimate of the public contribution necessary to attract an NBA franchise is $133 million, though perhaps a more realistic estimate is almost twice that amount. By contrast, an MLB team is likely to require a much greater infusion of public funds – approximately $330 million. Such a consideration may be moot, since Hampton Roads does not appear to generate the per capita income necessary to support an MLB team anyway. This means Hampton Roads is a risky location for MLB. Tampa Bay appears to have discovered that harsh reality. A May 6, 2001, article in the Chicago Tribune assessed the situation in Tampa Bay:

> "Ain't no sunshine: Baseball is on life support in Florida. Both the Florida Marlins and Tampa Bay Devil Rays are stuck with stadiums that may be their undoing.
>
> "Owner John Henry brought much-needed enthusiasm when he bought the Marlins from Wayne Huizenga in 1999, but he has been frustrated in his efforts to get a stadium. The latest session of the Florida Legislature adjourned Friday without a financing bill even reaching the floor. It was blocked by Senate President John McKay, perhaps as a protest against all those tacky flags that were attached to car antennas during the 1997 World Series.
>
> "Then there are the Devil Rays, who are last in the AL in attendance. They play at Tropicana Field, a quirky dome that is near downtown St. Petersburg and far from the population center in the area.

" 'We overestimated the strength of the market, frankly,' said Bill Bunker, who was executive director of the Pinellas Sports Authority when it sought a franchise. 'We thought there were a lot more baseball fans in this market than there are and we may have overestimated the financial abilities of the market.' "

COMMENTS ON MARKET SIZE AND FRANCHISE VIABILITY

Market size determines gate and local broadcast revenues in major league sports. MLB offers a good example of how financial inequities may put small-market clubs at some peril. There is a positive correlation between team payrolls and team winning percentage. Between 1994 and 2000, each additional $2 million in team payroll equated to approximately one additional regular season win in MLB. **Simply put, MLB shares less revenue among teams than does the NBA or NFL. Therefore, small-market teams have a much tougher time surviving in MLB. This is another strike against MLB insofar as Hampton Roads is concerned.**

High payrolls are even more strongly related to post-season success. Since 1995, when MLB switched to its current playoff format, teams in the highest quartile of payrolls have appeared in the playoffs 30 times, compared with 15 appearances by teams in the second quartile, one appearance by a team in the third quartile and two appearances by teams in the bottom quartile. In terms of success in the playoffs, the gulf between the "haves" and the "have-nots" is even wider. Teams in the top quartile have won 168 of the 190 playoff games played since 1995, with second-quartile teams winning another 20 of the 190 games. Of course, a high payroll is no guarantee of success: Witness such big-budget failures as the 2000 L.A. Dodgers, which failed to make the playoffs despite having the second highest payroll in baseball, or the 1998 Baltimore Orioles, which failed to even break .500 with MLB's highest payroll.

Hampton Roads possesses a small-market demographic profile when compared to communities that currently host teams in MLB or the NBA. Small-market franchises are financially vulnerable from the point of view of both the team and the community for at least five reasons. First, teams flirting with the notion of relocating usually would be silly not to seek compensation for the additional risk they would assume by entering a small market. This forces small markets to provide larger public subsidies for constructing stadiums and/or more generous lease arrangements. It is highly unlikely that Nashville would have attracted NFL interest in the absence of it offering an irresistible financial incentive.

Second, after the novelty effect of a new team erodes, team revenues tend to track competitiveness on the field. Small-market clubs (consider Montreal in baseball) do not have the financial wherewithal to compete with the larger markets for playing talent in this free-agency era, and that generally translates into reduced competitiveness and a further erosion of revenues as fan interest wanes.

Third, owners tend to emulate each other and adopt the financial strategies of the most successful clubs. The spate of new stadium construction in the 1990s corroborates this behavior. The risk for a city or region is they will be asked to fund the renovation or construction of new playing facilities, whether or not they are needed. Forty-six facilities were constructed or renovated in the four major professional sports leagues in North America between 1990 and 1998, and as of the end of 1999, an additional 49 facilities were either under construction or in the planning stages. **In other words, more than 80 percent of the venues for the four major professional sports leagues have been renovated or replaced since 1990. The shelf life of stadiums has been substantially reduced.** The Miami Heat and the Charlotte Hornets of the NBA, for example, have clamored for new arenas despite the fact their old facilities are only slightly more than 10 years old and have construction bonds still unpaid. Miami (Dade County) has built a new stadium for the Heat, while the Hornets are threatening to leave Charlotte if the city does not agree to replace the second largest arena in the NBA in terms of seating capacity.

Fourth, as pressure for greater revenue sharing mounts, the league will be less tolerant of clubs that will not or cannot pull their financial weight. MLB commissioner Bud Selig has expressed concern publicly that some teams appear to have been permanently consigned to also-ran status. Coincidentally, as MLB discusses "contraction," or the elimination of financially troubled franchises, all teams considered for dissolution are in cities that have ballparks that are considered economically obsolete. This generates additional pressure for new publicly financed facilities. The cities include Montreal, Miami, Tampa Bay and Minneapolis-St. Paul. When questioned about league contraction, Selig said:

> "The more I've analyzed the problems, the more I refuse to take any option off the table. Do I consider contraction a serious and viable option? I do. The economic problems are so pervasive that they are going to need a myriad of solutions."

Fifth, there is evidence some of the teams in the four major professional sports leagues are experiencing financial problems. Of course, many of the claims of financial distress issued by league offices are suspect because they represent thinly veiled attempts to convince cities that have balked at financing new ballparks to get on with it or suffer the consequences. MLB's blue ribbon panel on baseball economics, however, concluded that since 1994 MLB has lost collectively $1.4 billion, and only three MLB teams (New York Yankees, Cleveland Indians and Colorado Rockies) were profitable over that time. While one might quibble with these data, at least one MLB team may be in imminent danger. There have been persistent reports that the Tampa Bay Devil Rays may not be able to make their payroll.

The NBA is also experiencing some financial difficulty. Television ratings for NBA broadcasts on both NBC and TNT for the 2000-01 season were down 31 percent from peaks reached in 1997-98. Over the same period, attendance at regular-season games fell by 4.9 percent.

Hampton Roads and other communities seeking a professional sports presence must be mindful of the realities of the sports marketplace. Clearly, there are financial challenges and stresses that accompany inclusion in the big leagues, particularly for "small markets."

Those who support the use of public subsidies to attract major league sports have argued the public benefits induced by a major league presence exceed the public costs. However, while such individuals typically have ignored some costs, they have in particular tended to exaggerate benefits. The next section analyzes the public benefits identified by sports boosters.

The Rationale For Public Subsidies For Professional Sports Teams

ARE PROFESSIONAL SPORTS TEAMS "PUBLIC GOODS"?

Cities and regions subsidize professional sports most visibly through funding playing facilities, though less visibly by means of police and security provision, and enduring crowding, congestion, trash and rowdy behavior, and so forth. Proponents of subsidies for sports infrastructure argue that such subsidies are a fiscally responsible strategy because they properly should be viewed as public investments rather than expenses. Thus, they contend, Hampton Roads should view an expenditure on a major league baseball park in the same fashion as investments in things such as the port, schools, airports and the like. Such items, it is argued, generate benefits in excess of their costs and hence represent good investments of public funds.

This provokes an obvious question. If stadiums are such good investments, then why don't private entrepreneurs put up the necessary funds in the same fashion they do for suburban developments or even dot.coms? The reason, say supporters, is private investors cannot capture all of the benefits generated by large-ticket items such as stadiums. The problem, they say, is similar to that for many other "public" goods such as public safety and education. While the party who pays for an item such as a stadium receives some of the benefits, numerous other individuals (hotel and motel owners, and restaurateurs are examples) also enjoy some of the benefits even though they did not pay for the stadium.

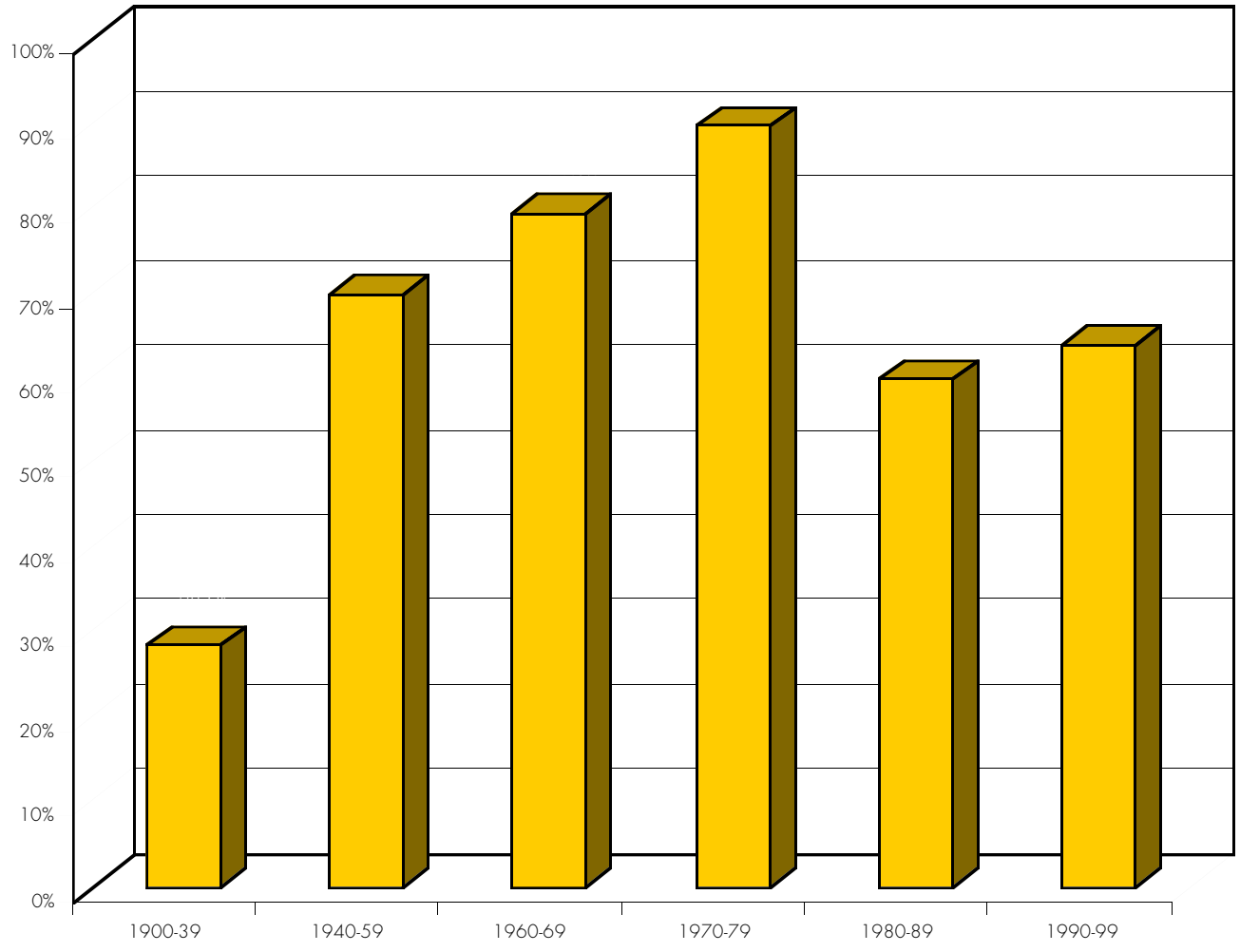
Thus, supporters of public subsidies for stadiums contend there are benefits "external" to the stadium's primary output that go to those who haven't made any investment. In the absence of public financial support, private entrepreneurs may decline to invest their funds because some of the benefits frequently go to other individuals who have not invested. Sufficient benefits do exist to justify major league teams, proponents argue, but these benefits are diffused over so many different individuals and groups that no single person will find it worthwhile to make the huge investment required. For example, every resident of the Cincinnati metropolitan area, they believe, derives some identification and prestige benefits from the Reds and the Bengals because the presence of these teams defines Cincinnati as "a major league city." Civic and regional pride have values, they contend, and this is among the reasons why public investment in major league stadiums is merited.

All of this is based upon the notion that professional sports are properly construed as "public" rather than private goods. National defense expenditures are determined publicly since all citizens benefit from the same arsenal of military goods, whether or not they pay taxes. The benefits of national defense go to all individuals, whether or not they know it or even want the protection. The optimal provision of pizzas, on the other hand, is determined privately since once a pizza is purchased and eaten, the benefits derived from that pizza go only to the person who purchased and ate it. Are stadiums really "public" goods, or are they "private" goods like pizzas? And, If they are, indeed, public goods, what is the balance between costs and benefits? **Questions relating to the external benefits professional sports impart and the extent to which they are public in character are at the heart of the debate about professional sports subsidies.** These issues are analyzed in succeeding sections.

WHO PAYS FOR STADIUM CONSTRUCTION?

The increase in the fraction of stadium construction costs borne by the teams on average in the 1990s creates the misleading impression that overall, private investors are shouldering an increasing share of the financial responsibility for professional sports. Encouraging this view are the data depicted in Graph 3, which shows the fraction of infrastructure costs borne by the private and public sectors for the four major professional sports leagues.

GRAPH 3
THE FRACTION OF STATIUM CONSTRUCTION COSTS BORNE BY THE PUBLIC SECTOR, 1900-1996



Source: David Swindell, "Public Financing of Sports Stadiums: How Cincinnati Compares," mimeographed by The Buckeye Center for Public Policy Solutions, January 30, 1996

It is true the public sector no longer provides as large a proportion of stadium construction costs as it did in the 1970s and 1980s. The reality, however, is that the *absolute* (not proportionate) dollars cities have committed to stadium construction terms have never been higher than over the period 1996-2000. This is true even when price inflation is taken into account.

One reason construction costs have increased so rapidly is today's stadiums are much more plush than they were even 20 years ago. In MLB, new stadiums generally have fewer seats but generate more revenue because of the growing emphasis on luxury seating and other amenities. However, this is only half the story because it does not take into account the other side of the picture – public-sector sharing of revenues. Most cities or regions that construct stadiums also share in the revenues generated by the stadiums and the teams that play in them.

DO TEAMS SHARE REVENUES WITH CITIES AND REGIONS?

Times have changed in this arena. Prior to the 1990s, cities and teams shared significant proportions of the revenues generated by stadiums and teams. Such is not the case today. **Sports stadium leases have evolved such that teams take virtually all of the significant revenue streams generated by a stadium, except for those they earmark for financing construction of the stadium itself. Clearly, teams expect a new stadium will improve their financial condition, otherwise they would not clamor for them. As a consequence, Hampton Roads should not expect to share revenues with teams. It is not the standard in professional sports today.** Communities might expect teams to earmark certain revenue streams; for example, the funds generated from naming rights might be earmarked to pay for the construction of a stadium. However, the *quid pro quo* will be complete appropriation of all the other revenues by the team. Confidential NFL data made available to the public as a result of the lawsuit Oakland Raiders owner Al Davis filed against the NFL revealed:

> "The average per-team operating profit, arrived at by deducting expenses from revenue, jumped to $11.6 million in 1999, up 68 percent from 1994. In 1999, the team generated an average of $45.3 million in local revenue, meaning primarily the dollars that can be wrung out of a stadium, an increase of 80 percent from 1994."

Hence, even while cities and regions have begun to pay a lower proportion of the construction costs of new stadiums, increasingly they are being pushed out of a significant share of the revenue generated by these stadiums and the teams that play in them. Most important, one of the largest sources of economic gain to a team is the increased value (price) of its franchise over time. As noted above, the value of franchises has climbed dramatically in recent years. Today, the average value of a major league baseball franchise is at least $200 million. If the construction of a new stadium is one of the reasons why a team's value increases, and the public has paid a majority of the construction costs of that stadium, then should the public share in the appreciated value of the franchise, if and when the owners sell it? Perhaps it should, but only rarely is that the case. The newly negotiated agreement the city of St. Louis and the State of Missouri have negotiated with the St. Louis Cardinals is an exception. Generally, wily owners have convinced star-struck cities and regions to fork over public cash without receiving in return any of the appreciation in the value of the franchise that nearly always results. Indeed, if and when they sell the team, they may realize capital gains of $100 million or more, none of which is shared by the public.

The allure of a new, modern stadium to a team is the increased "local revenues," over which teams have exclusive rights, and the increased value of the major league franchise that results. Local revenues are defined as those receipts not subject to league revenue-sharing arrangements and are the moneys teams keep for themselves. Examples include parking, concessions and the like. These are revenues that have climbed significantly in recent years, but cities and regions typically have not shared in this largesse.

The full exercise of the financial muscle provided by passionate demand for professional sports franchises has enabled teams to exclude cities from sharing these local revenues. Cities and regions have wanted major league teams so badly that they have negotiated agreements excluding the public from "local" revenues and a share of the appreciation in the value of the franchises.

The number of corporations and large organizations headquartered in a community largely determines the market price for luxury seating. Corporations represent the most important consumers of luxury seating. The roster of corporations headquartered in Hampton Roads to a substantial degree would determine the price for premium seats. Would the owners of a Hampton Roads professional sports team receive sufficient revenue from luxury seating to enable them to compete with current MLB or NBA franchises? This seems doubtful because Hampton Roads is home to only two firms listed among the Fortune 500 and cannot claim many large firms whose headquarters actually are in the region. Hampton Roads is a "branch region." Its large banks are head-

quartered elsewhere, for example, in Charlotte, and most of the region's large corporations are controlled from sites elsewhere in the United States or the world.

In any case, the evolution of stadium leases has restricted cities from sharing revenues that emanate directly from teams' operations. This has occurred for several reasons, but the primary one is cities and regions clamoring for teams have become pushovers for the teams they have attempted to attract. The contention, therefore, that public subsidies for professional sports represent prudent investments must be based on something other than a city's share of direct revenues. Those revenues go elsewhere and therefore do not play a big part in rigorous studies of the economic impact of professional sports teams.

INDIRECT EXPENDITURES

What about indirect revenues – from expenditures fans make at restaurants, bars and hotels in a professional sports city or region? **In most reputable studies of the feasibility of a professional sports franchise and its economic impact, the benefits accruing to the city through indirect spending (including multiplier effects) represent the pillar upon which the rationale for professional sports subsidies rests**. In the broadest sense, indirect spending includes all *additional* spending beyond direct spending that occurs in the community, for example, spending at a restaurant or bar in another neighborhood. Note the deliberate emphasis on the word "additional." There is no economic gain to those in Hampton Roads if, because of a major league team, its citizens stop spending money at, say, Patrick Henry Mall, and instead now spend it on a major league baseball team.

In the standard development models, local growth comes from increased export sales – net inflows of spending from *outside* the area. These expenditures then have a multiplier effect as individuals spend and re-spend these dollars several times. For example, the owners and employees of restaurants serving major league sports fans spend the money they receive from the fans.

Of course, it also is true that a major league team could convince local residents to spend their money in Hampton Roads rather than elsewhere. This is what economists label "import substitution" and represents a valid additional source of economic stimulation for a city or region. If the $100 spent by a local resident at a professional sports event in Hampton Roads would have been used to buying things from, say, New York City, then the presence of the local professional team would increase net local spending.

The size of the multiplier following any net increase in area spending depends similarly on the locus of the re-spending. If all of the new income generated by the sports team is re-spent on locally produced goods, then the multiplier will be substantial. If, however, the highly paid athletes or executives maintain their residences outside the area, or if the concessionaires import their T-shirts and beer from outside the region, then the multiplier will be small.

The impact of a professional sports team on the local economy depends, therefore, on the details of where each dollar is spent – on imports, exports or local production. Precise data on this are not easy to obtain, and the common technique is to proceed by making assumptions about the sources and uses of spending. **Not surprisingly, those who measure the greatest impact of professional sports teams on local economies assume that all the initial spending constitutes a net increase in local spending. This means they assume: (1) individuals who patronize a major league team will not reduce their expenditures on any other items in Hampton Roads; (2) those who live outside the region will spend new money on a major league team in Hampton Roads; and (3) Hampton Roads residents will stop spending money in other regions and now spend that money locally on the major league team. It seems obvious, however, that these propositions are not totally true, or even close to it.**

The discussion of whether people who patronize a major league team reduce their purchases of other things inside the city or region in order to do so is grounded in economic fundamentals. Individuals have limited budgets in terms of time and money. More time and money spent watching a professional sporting event necessarily means less time and money for other things. Consider the following nonsports example. Does the appearance of a new shopping venue such as Norfolk's MacArthur Center have an effect on sales at other shopping sites such as Patrick Henry Mall, Lynnhaven Mall or the Military Highway corridor? All one needs to do is to add the total retail sales in the region, and adjust them for inflation, to see that the appearance of a new shopping venue such as MacArthur Center does in fact impact other shopping areas. The effects sometimes are subtle and one may not see them unless one looks at city or regional totals. A small, strip shopping center store may go out of business or perhaps a store narrows its choice of merchandise because sales do not merit a larger selection. The point is, there is substitution present where regional expenditures are considered, whether for retail shopping or for a major league team. It's not all new money.

Since the appropriateness of public subsidies is of primary interest, it is worth noting that substitutions also can occur in the public sphere. If public moneys are spent on a professional sports team, will there be fewer dollars available for other public purposes, such as schools, roads and policing? Again, the answer almost surely is "yes." As cities and regions relearn bitterly each year at budget time, they can't spend the same dollar in two places. Local elections frequently turn on spending priorities and where public investments should best be made – "downtown" or in the neighborhoods. The point, then, is that to some extent the public investments made in major league stadiums reduce public expenditures made in other arenas. The question is not whether this is true, but to what degree it is true. Public financing does not emanate from a bottomless well.

It is true that high-visibility projects such as professional sports typically draw more popular support than many alternatives. If, however, such support is based only on the perception of substantial economic development flowing from the project – bolstered by the assumption-flawed impact studies – then this support is based on false premises. **In fact, according to several studies, it is plausible to assert that professional sports teams actually may be detrimental to area income growth. The types of jobs created by professional sports activity are low-wage and seasonal: ticket-takers, ushers, vendors, restaurant and bar workers, taxi drivers, etc.** That is not to demean the importance of such jobs to a community, but there are long-term development implications that need to be considered. An area development strategy concentrating on these types of jobs could lead to a situation where the region's comparative advantage is based on a relative abundance of such workers. Compared to other areas (with comparative advantage based on high-skilled and high-wage labor), future growth rates in the region investing in sports may lag growth rates in regions whose developmental strategy concentrates jobs in low-wage sectors. This is especially relevant for Hampton Roads, because the region's per capita income is only 87 percent of the national average (98 percent if cost-of-living differences are taken into account). Would Hampton Roads rather be like Austin, Texas, which has no major league teams, but an abundance of high-income, high-skill jobs, or instead a sink for low-income, low-skill jobs?

Those advocating sports-based development envision a very different long-run outcome. They project that a city's "major league" image is an intangible that will attract new, unrelated businesses. This is the "St. Louis Argument," though the decline of the city of St. Louis over the past few decades does not encourage this view. **Nonetheless, without question, civic and regional pride do have value; cities and regions with such pride are more uplifting places to live and play. Still, it is not clear such things are worth hundreds of millions of dollars that could be spent on other indisputably productive investments.**

To summarize, advocates of subsidies for professional sports identify several possible benefits to justify the public investment in sports infrastructure. They include: (1) direct benefits that accrue from spending that occurs in conjunction with the operation of the team; (2) indirect economic benefits accruing to the community as a consequence of hosting the team that are external to the team's activities and not captured by the team; and (3) the psychological benefit the community derives from hosting a team.

INDIRECT BENEFITS

A persistent argument for public subsidies for professional sports states that the indirect benefits realized by society (including psychological benefits and pride) exceed the costs society incurs in subsidizing professional sports. What does the available empirical evidence have to say about the magnitude of such benefits? The evidence provided by analysts without an economic or political stake in the outcome of subsidy debates is not encouraging about substantial indirect economic benefits imparted by professional sports.

An evaluation of the indirect economic impact of major league sports must consider both the region-wide and neighborhood impacts. Does the team contribute to the economic vitality of the metropolis; is there a region-wide contribution? Does the presence of the team enhance the economic activity in the neighborhood in which the stadium is located; is there a localized impact? The question of neighborhood economic impact has become more important because suburban stadium sites are increasingly being abandoned in favor of sites at the edge of or within central business districts (CBDs). Proponents of relocating stadiums to CBDs claim that such a move can help transform deteriorating city cores.

To help understand indirect economic impact, imagine drawing rings with increasingly larger radiuses around the stadium. If a major league team attracts fans outside the neighborhood in which the ballpark is located, that neighborhood is in effect "exporting" professional sports and an inflow of funds results. The communities from which the fans are drawn, however, experience diminished economic activity since those communities are "importing" the sports activity, which results in a dollar outflow. If the area analyzed includes nearly of all of the communities that are exporting and importing professional sports, no net dollar inflows or outflows are recorded for that area's economy. Metropolitan statistical areas (MSAs) generally consist of more than

one county. If fans are primarily drawn from the MSA, then we would expect little or no net spending changes within the MSA, since the money spent at the professional sporting event is simply supplanting money that would be spent elsewhere in the MSA. The primary methodological problem with promotional impact studies for professional sport is they ignore this "substitution" effect and other leakages that may occur as a consequence of the national character of the professional sports industry. **That is, the overly optimistic promotional studies touted by the most rabid supporters of major league teams blithely ignore the reality that most of the money fans spend on a major league team simply reduces their spending on other things within the region. This makes a huge difference.** To illustrate this, consider the information recorded in Table 7.

TABLE 7

Two Ways to Analyze the Economic Impact of Professional Sports for a Hypothetical Game in New York City with 30,000 Fans Attending a Game

Assumptions	Overly Optimistic Promotional Model: Estimated Economic Impact	Proper Assessment Model: Estimated Economic Impact
Game attendance = 30,000 fans, 10 percent, or 3,000 of whom come from outside New York City	Includes spending undertaken by 30,000 fans	Includes spending undertaken by 1,500 fans[a]
Spending on concessions = $10 per fan	$300,000 (30,000 x $10)	$15,000 (1,500 x $10)
Local value added in producing concessions = .4	Fails to consider local value added	$6,000 (.4 x $15,000)
Nonresident game attendees buy $20 worth of gas in NYC (25 percent of sales represents local income)	$60,000 ($20 x 3,000)	$7,500 (.25 x $20 x 1,500)
200 nonresident game attendees stay overnight, spending $100 each (50 percent of sales represents local income)	$20,000 (200 x $100)	$5,000 (100 x $100 x .5)
Multiplier	2	1.2[b]
Estimated economic impact before multiplier	$360,000	$18,500
Estimated economic impact to include multiplier	**$720,000**	**$22,200**

Source: This example is drawn from Roger G. Noll and Andrew Zimbalist, "Sports, Jobs, & Taxes: The Real Connection," in *Sports, Jobs & Taxes*, edited by Roger G. Noll and Andrew Zimbalist, (Washington, D.C.: The Brooking Institution Press), 1997, pp. 495-496.

[a] The assumption here is that 50 percent of the nonresident game attendees came to New York City for other reasons – for example, to go to the Statue of Liberty, or Times Square, or whatever. For support for both the 10 percent nonresident game attendee figure and the 50 percent figure, see John L. Crompton, "Economic Impact Analysis of Sports Facilities and Events: Eleven Sources of Misapplication," Journal of Sports Management, vol. 9 (January 1995), pp. 27-29.

[b] This multiplier accounts not only for the fraction of income that is spent again, but also for taxes and value added.

As Table 7 indicates, ignoring the substitution effect accounts for most of the substantial disagreement on the estimated size of indirect economic benefits generated by major league teams. One way to assess the reliability of promotional economic impact studies is to compare their promises to an "after-the-fact" audit in communities where there have been changes in the professional sports industry. Consider the following excerpts from empirical work performed by a variety of researchers with no ax to grind on the impact professional sports has had on metropolitan economies.

In 1996, Robert A. Baade, Vail Professor of Economics at Lake Forest College, examined the impact of changes in professional sports in all 48 cities in the United States that have experienced some change in their status within the four major professional sports leagues over the period 1958 through 1987. In considering changes in the professional sports industry had on metropolitan real per capita personal income, Baade found: "The results of the empirical tests … were statistically insignificant for all but a few cities."

Baade's conclusion that professional sports have no discernible impact on metropolitan real per capita personal income is strong, but too kind, according to a 1998 study by Dennis Coates and Brad R. Humphreys, both of whom are on the economics faculty at the University of Maryland, Baltimore County. Not only did these researchers not find a positive impact on per capita income by professional sports, but they actually discovered that professional sports reduce per capita income in cities and regions. In a 1999 Journal of Policy Analysis and Management article, they wrote:

> "This paper investigates the relationship between professional sports franchises and venues and real per capita personal income in 37 Standard Metropolitan Statistical Areas in the United States over the period 1969-1994.Our empirical framework accounts for the entry and departures of professional football, basketball and baseball franchises, the construction of arenas and stadia, and other sports related factors over this time period. In contrast to other existing studies, we find evidence that some professional sports franchises reduce the level of per capita personal income in metropolitan areas and have no effect on the growth in per capita income, casting doubt on the ability of a new sports franchise or facility to spur economic growth."
>
> In assessing the correlation between jobs and the professional sports industry, Baade found in 1996 that "…sports teams and stadiums have an insignificant impact on jobs in the commercial sports industry."

This last result is particularly significant in that one would expect changes in the professional sports industry to exert some measurable influence on jobs in the commercial sports sector, which is small, relative to a large, diverse metropolitan economy. To provide some context on the size of a professional sports team, Roger G. Noll, co-editor of the 1997 book *Sports, Jobs & Taxes*, observed:

> "By measures such as revenue, a sports team is a considerably smaller business than many less visible enterprises. To take but one example, a major university is not only larger than any sports team, but many exceed the size of an entire league. Stanford University expects to generate revenues of approximately $1.5 billion in fiscal 1997. In 1994 fifty universities each received mote than $75 million in research grants from the federal government. The top ten universities together received approximately $2.8 billion in federal grants in 1994, which was more than the combined revenues of the NFL and the National Hockey League, or the combined revenues of the Major League Baseball and the National Basketball Association."

Given the fact that Hampton Roads comprises several large cities, the issue of what a team would contribute to the metropolitan economy is particularly important. Even if there were a measurable economic impact, these benefits would have to be allocated among the cities in some fashion. One does not have to be a practiced politician to understand that those Hampton Roads cities that did not host a team, but which helped defray the costs of attracting and maintaining a team, would not have agreed to forgo being a host site without receiving some concrete, benefits in return. A reasonable measure of what a team actually would contribute to the metropolitan economy, therefore, must be determined.

Two of the alleged success stories of major league sports are baseball's Baltimore Orioles and their congenial ballpark, Camden Yards. However, Bruce W. Hamilton and Peter Kahn, economics professors at Johns Hopkins University, have estimated the economic impact of Camden Yards on the Baltimore economy. In their chapter on "Baltimore's Camden Yards Ballparks" (*Sports, Jobs & Taxes*, 1997), they concluded:

> "Taking account of all the measurable benefits of the Camden Yards investment (that is, job creation and tax imports), we estimate that baseball at Camden Yards generates approximately $3 million in annual economic benefits to the Maryland economy, at an annual cost to the taxpayers of Maryland of approximately $14 million. The net annual cost is approximately $11 million, or about $14.70 a year per Baltimore metro household."

Most individuals in Crab Town believe the Orioles (and the football Ravens) are the financial equivalent of Old Faithful – they generate economic growth for the region on a predictable schedule. The truth is just the opposite – they diminish economic growth on a regular schedule.

Thus, the critical question: If there is no evidence to support the supposition that professional sports have a positive effect on regional economies, is there evidence that major league teams have a substantial economic impact on the neighborhoods in which their stadiums are located? This may be a particularly important issue if the neighborhood is located in the urban core. Legislatures have become sensitive to the demise of urban America and, as a consequence, initiatives designed to rejuvenate downtowns have enjoyed some support at the state and federal levels. Arguably, revitalizing downtown areas (Newport News, Portsmouth and Norfolk all have pursued this strategy) may generate benefits that spill beyond the urban core. If this is so, non-local public subsidies for downtown redevelopment may have merit. Before a stadium can be used to rejuvenate a downtown area, however, it must be determined that it represents the best use of that land.

The local economic impact depends on the extent to which spending and re-spending occurs by those residing outside the environs where the sports event is held, or by local citizens who spend money on the games as opposed to spending discretionary income outside their neighborhood. It is difficult to dispute the game-day impression that substantial economic activity does occur in the neighborhood. The sense is that enthusiastic spendthrifts descend on a community. However, the important question is this: Does the money stay in the neighborhood? **Stadiums may well serve only as a conduit through which money is transmitted from fans to nonresident players and owners. Thus, even at the local level, professional sports may not provide much of an economic boost.**

Robert Baade studied the economic impact of professional sports on Pioneer Square, the Seattle neighborhood in which the NFL Seahawks and MLB Mariners play. Based on an analysis of the changing mix of commercial activity in the neighborhood, he concluded:

> "The evidence from Seattle is decidedly mixed. Clearly the stadium channels economic activity in the direction of businesses that have a connection to sports. Stadium bars and restaurants and retail outlets selling sports paraphernalia benefit. Many other businesses, particularly those that do not appeal to sports fans, lose business. This occurs as a consequence of peak use of shared community resources on event day; parking and sidewalk space are the most obvious examples. Customers that ordinarily would patronize local businesses do not on event day because the cost of doing so increases. Routine or normal business, therefore, is crowded out on a scale that may well offset any neighborhood gains. Unless the excess demand for key local resources is somehow mitigated, many other commercial activities in the neighborhood are destined to decline."

Thus, there are reasons to believe that even at the neighborhood level professional sports fail to boost the economy. Whether the team contributes meaningfully to the local economy depends on the nature of that economy and its ability to minimize the disruption caused by peak stadium traffic. This requires careful planning and a professional sports team willing to be a good citizen. However, the political power most professional sports teams currently wield forces neighborhood businesses and residents to shoulder a disproportionate share of the risks and inconvenience associated with the influx of fans on game day.

The costs to a region or city of hosting a professional sports team include more than the initial outlays for landing the team and building a stadium. Most obviously, there is the additional police protection and clean-up costs in the stadium environs, which mysteriously on occasion have been excluded from the cost-benefit analysis for hosting a team. But, there also are ongoing stadium costs that include operation and maintenance. Fearful of financial innovation that will render their stadium economically obsolete, major league teams now include in their memoranda of understanding with cities clauses that guarantee stadium renovations to ensure their stadium will maintain a designated rank within the league in terms of revenue generation.

PUTTING IT ALL TOGETHER

In light of the insignificant or at best minimal economic benefits that accrue from major league teams, and costs that may well be understated, are there grounds for Hampton Roads to pursue a professional sports team? The answer is, "Not if it is being done for economic reasons." Most major league teams are poor financial investments for cities and regions (though not necessarily for the astute owner who is able to pry substantial subsidies from the public). Even a city such as Baltimore would be better off to invest its funds in activities other than major league sports, if it is interested in a competitive rate of return.

Of course, sport has substantial social and cultural significance in the United States and throughout the world. The Orioles and the Ravens uplift the spirits of Baltimoreans and presumably infuse many of region's residents with pride. Indeed, when all is said and done, the primary benefits to Hampton Roads and any other community that is considering hosting a professional sports team would be psychological in nature. **A community establishes an identity, for better or worse, in part through the existence and performance of its sports teams. Sports help define a community's place in the social hierarchy. A professional sports team is something around which members of a community find common ground and coalesce. It provides a topic of conversation around the coffee machine and the dinner table. These intangibles are worth something, though it is not abundantly clear they are worth more than superior K-12 schools, or reduced crime, or whatever. And, as we have seen, these intangibles do not lead to higher city or regional incomes.**

We conclude this section with a simple thought that may be comforting to those who wish to bring a major league franchise to the region. The Hampton Roads MSA has a population of approximately 1.55 million. In the analysis above, we estimated that the public sector in Hampton Roads likely would contribute approximately $330 million to field an MLB team. Then, each citizen (sports fan or not) would pay $212.90 to host an MLB team. If the team were to stay in Hampton Roads for 20 years, then each citizen would pay only $21.29 per year to attract and retain the team in the region. It is plausible that many people would be willing to support a professional sports team if they were informed it would cost them only $21.29 per year to do so. It appears many people believe the pride and prestige associated with major league status are worth even more than that. Thus, even though the net economic benefits from major league sports teams are minimal or zero, and most major league franchise owners enrich themselves at the expense of the cities and regions hosting their teams, many citizens might nonetheless believe major league sports are a good deal.

PROFESSIONAL ATHLETIC MONOPOLIES: A FINAL POINT

Professional sports leagues are unregulated cartels that function as monopolies. Monopolies, of course, exist in other sectors of the economy (for example, public utilities, parking and public schools). Frequently, governments ordain or otherwise support these monopolies. Governments do so either because the perceived benefits of allowing a monopoly to exist appear to outweigh the perceived costs, or because of political reasons.

An important reason why cities and regions get taken to the metaphoric economic cleaners so often by professional sports teams is that the sports leagues exercise a great deal of monopoly power. Most citizens object to the exercise of monopoly power by cartels such as OPEC, which raises the prices they pay for gasoline, and some complain when Microsoft makes it difficult for them to purchase the computer software they prefer. Somehow, though, cities and regions seem to overcome their anti-monopoly qualms when they deal with professional sports teams, with the net effect being they actually promote public policies that facilitate the monopoly power of the leagues and teams. Needless to say, the leagues and team owners are quite thankful for such attitudes. It's a scenario that clearly favors the leagues and owners, but one that perhaps is not in the best interests of Hampton Roads.