



# TESTIMONY

March 24, 2015

## ON THE USE OF PUBLIC DOLLARS TO FUND A NEW NFL STADIUM IN SAINT LOUIS

*By Joseph Miller and Michael Rathbone*

Testimony Before the House Committee on Oversight and Accountability

### **To the Honorable Members of This Committee:**

My name is Joseph Miller, and I am a policy analyst for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented here are my own. This testimony is intended to summarize research that analysts for the Show-Me Institute have conducted and reviewed regarding proposals to use public dollars to fund sports stadiums, and particularly the proposal to spend in excess of \$400 million on a new riverfront stadium for the St. Louis Rams or any possible replacement team.

When considering whether the state of Missouri should publicly finance the construction and operation of a new professional sports stadium, policymakers should note that the

consensus among economists is clear: sports stadiums do not generate significant economic growth or urban regeneration. They also do not substantially increase direct or indirect tax receipts, at least not to the level that matches large public subsidies. One review of the economic literature concluded:

*Economists reach the nearly unanimous conclusion that “tangible” economic benefits generated by professional sports facilities and franchises are very small; clearly far smaller than stadium advocates suggest and smaller than the size of the subsidies. The fact that sports subsidies continue to be granted, despite the overwhelming preponderance of evidence that no tangible economic benefits are generated by these heavily subsidized professional sports facilities, remains a puzzle.<sup>1</sup>*

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University of Chicago economist Allen Sanderson, speaking specifically about the proposal to publicly finance a new football stadium for the Rams, stated: “Building a football stadium is probably one of the worst expenditures of taxpayer dollars there is.” He went further: “. . . to say it’s going to put us on the map, it’s going to be a catalyst for economic development . . . that’s just nonsense.”<sup>2</sup>

These are not isolated sentiments. When a random sample of members of the American Economic

Association were asked whether they agreed with the statement, “Local and state governments in the U.S. should eliminate subsidies to professional sports franchises,” more than 85 percent agreed or strongly agreed, 10 percent were neutral, and 5 percent disagreed.

Public officials, in Missouri and elsewhere, generally expound the opposite viewpoint. After all, stadiums draw large crowds and sustain many jobs. But the fact is that sports stadiums, especially football stadiums,

have low utilization rates, meaning that they rarely provide entertainment and employment. A football season has only 10 guaranteed home games, two in the preseason and eight in the regular season. As for consumer spending, the percentage of income residents are willing to spend on entertainment, including going to sports games, is relatively fixed. Thus, when local residents go to sports games, they spend recreation dollars that would likely have been spent elsewhere in the local economy.



Net new economic activity can come from those visiting from outside the region. However, when these traveling fans are large enough to have a major effect on the local economy, they also can be so large as to crowd out other types of tourists and business travelers who may have stayed in the region otherwise, dampening the overall positive impact of large sporting events.

A new stadium theoretically could have a positive impact on the state economy and state finances depending on two factors: 1. Income taxes from players and other parts of the Rams organization that would leave with the Rams; and 2. Out-of-state tourists choosing to visit and spend money in Missouri in whole or in part due to the presence of the St. Louis Rams. If those factors generate new income in excess of the subsidy, the public subsidy may be economically justified if they enable Saint Louis to keep the Rams. Missouri policymakers need not employ theoretical arguments on lack of stadium-led development or the pitfalls of stadium financing, they can simply look at the example of Saint Louis' existing football stadium, the Edward Jones Dome.

Since the stadium opened in 1995, development has not radiated from the dome. Areas just to the north of the stadium remain mostly empty. While the population of downtown Saint Louis has grown since 2000, much of that growth has occurred around Washington Avenue, which has been the recipient of hundreds of millions of dollars of TIF and tax credits.

While the cost effectiveness of those policies is not the subject of this testimony, there is little compelling evidence of dome-centered development.

Furthermore, when we consider city earnings tax, city and county hotel motel tax, and state income tax revenue, there is no strong evidence of any large jump caused by the opening of the dome in 1995.<sup>12</sup> In fact, much of the city's portion of stadium/convention center debt was repaid with general revenue, as hotel tax revenue and restaurant tax revenue did not increase to sufficient levels to all debt payments until the mid-2000s, many years after the dome opened.<sup>3</sup>

The fact that there is a discussion in 2015 about replacing the dome speaks to the risky nature of publicly financed football stadiums. The Edward Jones Dome is 20 years old and was considered state-of-the-art when it opened.<sup>4</sup> The movement away from a preference for domes and toward open-air stadiums with many luxury boxes has been rapid. There is no guarantee that a new stadium will stand the test of time or the increasing level of service demanded by the NFL any better than the Edward Jones Dome.

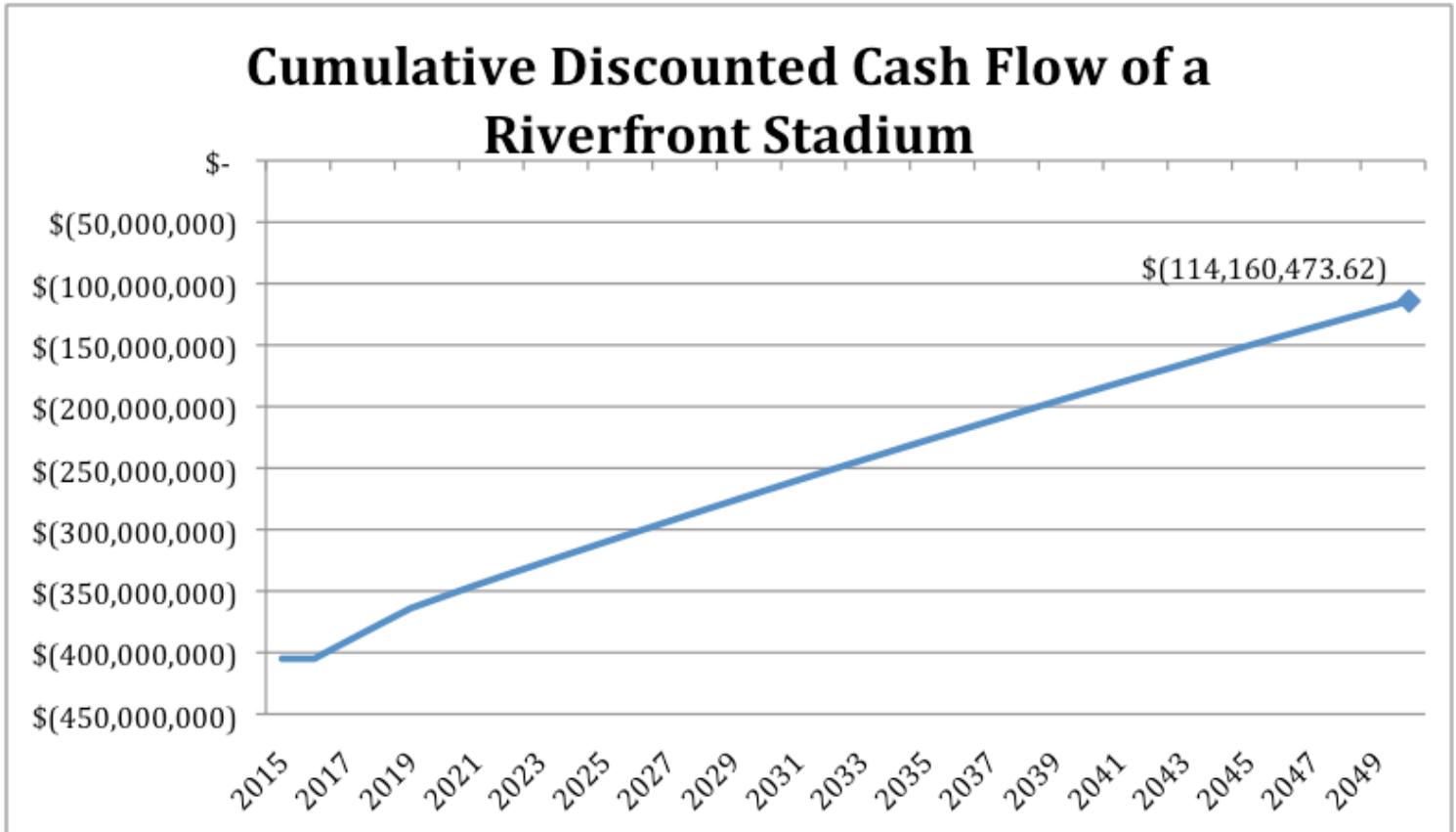
The continued funding of the dome is also problematic. Public entities paid for the entire project, with the state and Saint Louis region paying the \$280 million in capital costs. Combined, those entities still must repay \$120 million of principle; those payments will be completed in 2022.<sup>5</sup> In addition, the state, along with Saint Louis City and County,

set up revenue streams for the regular repair and renovation of the dome. This includes \$2 million a year from the state and a further \$4 million from the Saint Louis region.<sup>6</sup>

Unfortunately, the amount of revenue set aside for maintenance and repair of the dome will not be sufficient. Although the dome is only 20 years old, over the next decade maintenance and renovation costs will vary between \$7 and \$9 million per year. Whether or not the state decides to finance a new stadium, the existing dome will require more dollars than were originally set aside to keep it in a good state of repair through 30 years and beyond.<sup>7</sup>

This is the situation with the Edward Jones Dome: After 20 years, the stadium is no longer considered "top tier," and existing public support is not sufficient to keep the stadium in a state of good repair. Policymakers should ensure that they account for a possible short lifespan for a new stadium and significant regular renovation needs.

There are many unknowns with the plan for a new riverfront stadium. The exact breakdown of how the stadium would be paid for is not final, although initial reports claim that the total public financing will amount to \$405 million. That includes \$300 million to \$350 million from extending the bonds on the Edward Jones Dome; Brownfield tax credits up to \$50 million; and Missouri Development Finance Board tax credits of up to \$20 million.<sup>8</sup> An important unknown is how regular maintenance and renovation costs will be handled.



Excluding the unlikely event that the Rams organization pays these costs, policymakers should be prepared to create revenue sources to cover at least \$6 million (the current level of support to the dome) or annual repair needs over a 30-year lifespan. If we assume that the public cost of building a new stadium will be \$405 million, with an average maintenance cost of \$6 million per year over 30 years (2020-2050), the net new income (in the form of sales and income taxes) to public entities would fall short of repaying the \$405 million investment by \$114 million, even assuming half the stadium attendees are not from Missouri.<sup>9 10</sup>

The most important factor in these calculations is the growth in players' salaries, how long the stadium will hold the Rams, and the maintenance costs of

the new stadium. It would take growth in players' salaries of over 5 percent for the next 35 years for the stadium to break even for the public. However, should the stadium become outmoded after only 20 years or maintenance costs that average more like \$7 million a year (as they do now for the dome), losses to the public could be much higher. These calculations also assumed that fully half of the stadium's attendees would be visiting from out of state. The actual percentage is likely to be lower than that, decreasing the already negative return on investment.

A new publicly financed football stadium in Saint Louis is not likely to be of much economic benefit to the taxpayer, nor is it likely to deliver enough new revenue to justify the expenditure as currently planned.

Expert opinion on publicly funded stadium projects in general, as well as the state's specific experience with the Edward Jones Dome, confirms that stadiums are unlikely to generate economic development. The fact that the dome has become functionally obsolete, as well as strapped for maintenance dollars, only 20 years after opening demonstrates the risks of stadium development both in terms of its longevity and long-term upkeep needs. Whether or not the stadium provides enough intangible benefits to the Saint Louis area in terms of civic pride or prestige is a valid question and may be a reason to build the stadium. However, the existing evidence does not support the idea that the stadium will generate economic development or tax revenue to match the use of public dollars.

## NOTES

1. Heywood Sanders, "Space Available: The Realities of Convention Centers as Economic Development Strategy," 24-26.
2. Missouri Department of Revenue, "Comprehensive Annual Financial Report June 30, 2002," 90.
3. Sanders, "Space Available," 25.
4. "Welcome, Dome—'Is This Place Big!'" *St. Louis Post-Dispatch* – November 5, 1995.
5. "Edward Jones Dome Leasehold Revenue Bonds," [https://www.stlouis-mo.gov/government/departments/comptroller/documents/upload/Edward-Jones-Dome-Debt-Svc-Tables\\_1-1-2015.pdf](https://www.stlouis-mo.gov/government/departments/comptroller/documents/upload/Edward-Jones-Dome-Debt-Svc-Tables_1-1-2015.pdf).
6. David Hunn, "\$62 Million Hole in Jones Dome Future?" [http://www.stltoday.com/news/local/metro/million-hole-in-jones-dome-future/article\\_ffddcce5-b713-5586-8292-731b20fc7179.html](http://www.stltoday.com/news/local/metro/million-hole-in-jones-dome-future/article_ffddcce5-b713-5586-8292-731b20fc7179.html).
7. Ibid.
8. Jacob Kirn and Brian Feldt, "Plan Unveiled for Outdoor NFL Stadium on St. Louis' North Riverfront," <http://www.bizjournals.com/stlouis/news/2015/01/09/plan-unveiled-for-outdoor-nfl-stadium-on-st-louis.html?page=all>.
9. There has been talk that the new stadium will also host a MLS team. Although there are currently no plans for the MLS to expand into Saint Louis, there is still a chance that Saint Louis, at some point in the

future, will host an MLS franchise. Taking this into account and recalculating our figures, we find that the presence of an MLS franchise will bring an extra \$28 million in present value dollars from 2020 to 2050 to the region, assuming certain growth rates and performance measures. Although MLS has more home games than football, the team salaries are insignificant compared to the NFL, which generates most of the tax revenue from building the stadium. Even assuming an MLS team comes to Saint Louis, the stadium is only like to generate \$320 million, much less than the \$405 million upfront cost.

10. Full explanation of calculation available on request.

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