



TESTIMONY

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TESTIMONY REGARDING THE USE OF CITY FUNDS FOR PROFESSIONAL SPORTS STADIUMS

By Joseph Miller

Testimony Before the Ways and Means Committee
of the Saint Louis Board of Alderman

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 by the city to spend in excess of \$70 million dollars on a new riverfront stadium for the Saint Louis Rams or any possible replacement team.

When considering whether the city of Saint Louis 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. Nor do they 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

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generated by these heavily subsidized professional sports facilities, remains a puzzle.¹

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.²

These are not isolated sentiments. When a random sample of members of the American Economic Association were asked whether they agreed with the following statement:

Local and state governments in the U.S. should eliminate subsidies to professional sports franchises

more than 85% agreed or strongly agreed, 10% were neutral, and 5% disagreed.³

Public officials in Missouri and elsewhere generally expound the opposite viewpoint.⁴

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 actually provide entertainment and employment only rarely. A professional football season has only ten 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 sporting events, is relatively fixed. Thus, when local residents attend games, they spend recreation dollars that would likely have been spent elsewhere in the local economy if the game were not taking place.⁵ While some argue that construction of the stadium itself will be a boon to the economy, such a result is far from guaranteed. For example, a University of Missouri economist studied the impact of the construction of the Edward Jones Dome and the Scott Trade Center on the construction industry in the Saint Louis metropolitan area. The study's result suggested that:

...instead of creating new construction jobs, jobs were shifted from projects that would otherwise have been undertaken, resulting in no net new job creation in the construction industry. ... These results, coupled with the more extensive analysis given in the article on construction employment, suggest that the net impact of stadium construction on construction employment and worker incomes is zero.⁶

City policymakers looking for information on the costs and benefits of stadium projects in Saint Louis need not rely on theoretical arguments about 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 as the chart to the right

shows. Areas just to the north of the stadium remain mostly empty. While the population of the downtown area of Saint Louis City has grown since 2000, much of that growth has occurred around Washington Avenue, which has been the recipient of hundreds of millions of dollars in tax increment financing and tax credits.⁷

The cost-effectiveness of those policies is not the subject of this testimony, but in any case there is little compelling evidence of dome-centered development.

Furthermore, when we consider revenue from the city earnings tax, the city hotel/motel tax, and sales taxes, there is no strong evidence of a large jump caused by the opening of the Edward Jones Dome in 1995.⁹ In fact, much of the city's portion of stadium/convention center debt was repaid with general revenue, because revenue from hotel and restaurant taxes never increased sufficiently to handle all debt payments on the dome and convention center—payments that continue to outstrip hotel/restaurant tax revenue.¹⁰ As for earnings tax revenue, unless the players and staff for the Rams live within the city limits, they only pay earnings taxes on the days the Rams play in the city, which are few, as the practice facility is located in Saint Louis County. Reportedly, the city only earns about \$4 million in revenue that can be attributed to the Rams, including earnings taxes, ticket taxes, and other sources.¹¹

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.¹² 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 will provide the increasing level of service demanded by the NFL any better than the Edward Jones Dome has.

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 must still repay \$120 million of principal;

those payments won't be completed until 2022.¹³ 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.¹⁴

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 the next decade.¹⁵

The situation of the Edward Jones Dome is this: 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 life span for a new stadium and significant, regular renovation needs.

With the plan for a new riverfront stadium there are many unknowns, making exact statements on economic return problematic. Nonetheless,

Population Density and Tax Incentives in Saint Louis City, 2000-2013⁸



we can assume that net new economic activity from the development can come from those visiting from outside the city. However, when these traveling fans arrive in numbers large enough to have a substantial effect on the local economy, they can also be so numerous as to crowd out other tourists and business travelers who otherwise may have stayed in the region, dampening the overall positive impact of large sporting events.¹⁶

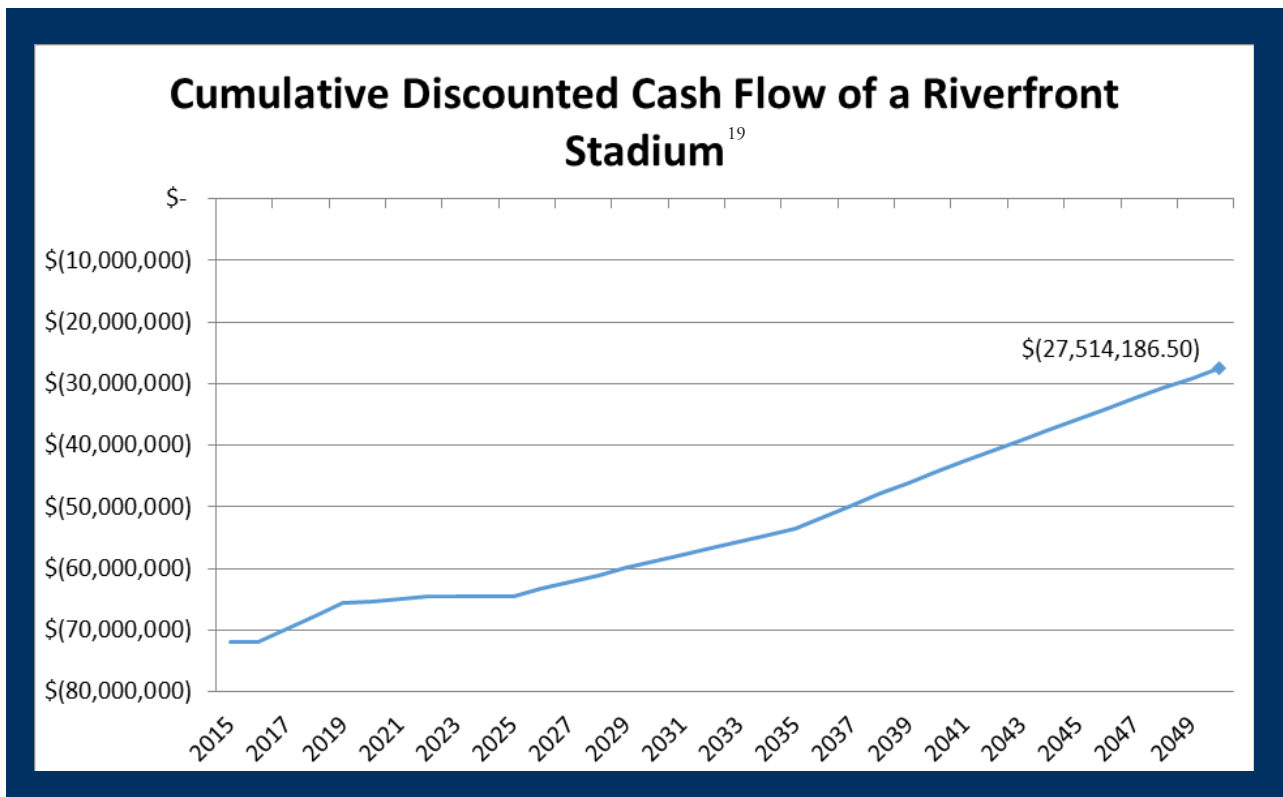
A new stadium could theoretically have a positive impact on the city economy and city finances depending on two factors: 1. Income taxes from players and other parts of the Rams organization that would otherwise leave with the Rams,¹⁷ and 2. Non-city residents choosing to visit and spend money in Saint Louis City in whole or in part due to the presence of the Saint Louis Rams. If those factors generate new income in excess of the subsidy, the public subsidy may

be economically justified if it enables Saint Louis to keep the Rams.

The exact breakdown of how the stadium would be paid for is not final, although the latest reports claim that the total city financing will amount to at least \$75 million. An important unknown is how regular maintenance and renovation costs will be handled. Excluding the unlikely possibility that the Rams organization will take on these costs, policymakers should be prepared to create revenue sources to cover at least \$6 million (the current level of support to the dome) per year for repair needs over a 30-year lifespan. Plans so far only indicate the possibility of new taxing districts in the stadium area, which are unlikely to create sufficient funding for the entire site's maintenance. Based on a net present value analysis, if we assume that the city's cost of building a new stadium will be \$75 million, with an average maintenance

cost to the city of \$3 million per year over 30 years (2020–2052), the net new income (in the form of sales and income taxes) to public entities would fall short of repaying the \$75 million investment by \$27.5 million, even assuming 90% of stadium attendees are not from Saint Louis City.¹⁸ The chart below shows the cumulative net present value of a new riverfront stadium to the city of Saint Louis over the life of the project:

An important component of the total cost to the public of a new stadium is income tax revenue from football players. However, looking strictly from the city's perspective, it can expect little in player tax revenue because they only play in Saint Louis City a few times a year.²⁰ As most players only pay tax on days played in the city, even large salaries impact tax revenue very little. Therefore, the city's primary source of tax revenue would be event-day sales taxes and



other fees. However, even if we assume that nearly all stadium goers come from outside the city and would not spend money there otherwise, the current plan is to give about two-thirds of these revenues to the Rams organization, greatly diminishing their impact on the city's bottom line.²¹

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 city'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 and is also strapped for maintenance dollars only 20 years after opening demonstrates the risks that come with stadium development. Whether the stadium provides enough intangible benefits to the Saint Louis area in terms of civic pride or prestige is a valid question, and the answer may provide 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.

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NOTES

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2. Here & Now. "St. Louis Proposes \$400 Million Plan To Keep Rams." <http://hereandnow.wbur.org/2015/02/17/st-louis-rams-stadium>. Accessed November 10, 2015.
3. Bennett, James T. *They Play, You Pay: Why Taxpayers Build Ballparks, Stadiums, and Arenas for Billionaire Owners and Millionaire Players*. New York, NY: Copernicus Books, 2012; p. 169.
4. Feldt, Brian. "Nixon makes economic case for Rams stadium." <http://www.bizjournals.com/stlouis/news/2015/02/10/nixon-makes-economic-case-for-rams-stadium.html?page=all>. Accessed November 10, 2015.
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6. Miller, Phillip A. "The Economic Impact of Sports Stadium Construction: The Case of the Construction Industry in St. Louis, Mo." *Economic and Policy Analysis Research Center*. June, 2001; p. 20.
7. Miller, Joseph. "Domes, Development, and Downtown Saint Louis." <http://www.showmedaily.org/2015/03/domes-development-downtown-saint-louis.html>. Accessed November 10, 2015.
8. Geographical areas for population density in the map displayed are Census block groups.
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10. Sanders, Heywood. "Space Available: The Realities of Convention Centers as Economic Development Strategy." Washington, D.C.: The Brookings Institution. San Diego, City of. 1998; p. 25.
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12. "Welcome, Dome – 'Is This Place Big!'" *St. Louis Post-Dispatch (MO)* (Published as *St. Louis Post-Dispatch*) – November 5, 1995.
13. "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. Accessed November 10, 2015.
14. Hunn, David. "\$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. Accessed November 10, 2015.
15. Ibid.
16. Barclayecaf, Jonathan. "Predicting the Costs and Benefits of Mega-Sporting Events: Misjudgement of Olympic Proportions?" <http://www.iea.org.uk/sites/default/files/publications/files/upldeconomicAffairs340pdfSummary.pdf>.
17. SI Wire. "'Jock tax' could cover \$220 million for new Bucks arena." <http://www.si.com/nba/2015/01/27/milwaukee-bucks-new-arena-jock-tax>. Accessed November 10, 2015.
18. 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 NLS franchise. Taking this into account and recalculating our figures, we find that the presence of an MLS franchise will, at best, bring in around \$19.8 million in present value dollars from 2020 to 2050 to the city, assuming certain growth rates and performance measures, and that 90% of stadium goers are only visiting the city for the MLS game. 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.

19. Full explanation of calculation available on request.
20. Powell, William. "Earnings Tax, Income Tax, and the Rams." <http://www.stlmag.com/news/sports/earnings-tax,-income-tax,-and-the-rams/>. Accessed November 10, 2015.
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