



Last Week In Bizball by Pete Toms

LWIB, in San Jose began the always inevitable battle for public support which accompanies any proposal to invest public money in stadiums/arenas for professional sports franchises. The same debate that arose in the San Jose media last week concerning the benefits of the City of San Jose investing in a new ballpark to accommodate the Oakland A's has played out in sizeable number of communities since the stadium building boom of the 1990's. Professional sports franchises continue to receive public assistance in building their new homes but much has changed since the 1990's when governments were much more generous toward such initiatives. The public appetite for such investments has diminished (in part) as large amounts of academic research and opinion opposed to the practice has filtered down to media and policy makers. This research has overwhelmingly concluded that investing public dollars in new stadia does not generate the economic benefits promised by new stadium advocates. More recently the tenor of the debate appears to be moderating. Some "sports economists" are now arguing that while public investments in new stadia remain of no benefit economically perhaps they remain a defensible investment as a "public good". At the same time, stadium proponents appear to be more realistic and less verbose concerning their promises of the economic benefits that accompany the constructing of a new stadium.

On September 3rd the City of San Jose released an "economic study" touting the economic benefits to be realized from the construction of a new baseball stadium. Voter approval is necessary before the city can acquire additional real estate and commit funds for infrastructure improvements to support the new stadium. [Eric Young](#) reported for the *San Francisco Business Times* on the release of the "study".

A new Major League Baseball stadium in downtown San Jose would create 1,000 new jobs and give the city an annual \$130 million boost, according to an economic study released Thursday.

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With a fully operational facility in 2014, the ballpark — designed to be the new home of the Oakland A's — would create 1,000 new jobs paying wages of about \$62 million, according to the report.

Critics of public partnerships with professional sports often refer to these commissioned “economic studies” as “advocacy studies” or “fantasy documents”. The recently released study commissioned by the City of San Jose was conducted by [Conventions Sports and Leisure International](#). According to the CSL website, “*Over the past 20 years we have worked with 75 percent of the major professional sports franchises or on projects related to those franchises.*”

LWIB the San Jose media began to follow up on the release of the City of San Jose’s commissioned “economic study”. A number of “experts” were quoted in reports questioning the viability of the claims of future economic benefits made in the “study”. [Tracy Seipel](#) reported for the *San Jose Mercury News*,

“Sports economists also say the city’s analysis is overly optimistic on the stadium’s projected number of jobs, the ripple effect on the local economy created by direct spending, and the impact of the teams’ salaries in the area.”

(Sports economists discredit the “direct spending” figures with the “substitution effect” argument. Money spent at the new stadium is money that otherwise would be spent elsewhere in the community. Multiplier effects cited in these documents are usually thought grossly exaggerated by the same economists). Ms. Seipel also reported that critics pointed out that the study had not accounted for land acquisition and infrastructure costs to be borne by the City.

As the public has become increasingly sceptical about the economic benefits of constructing a new stadium, governments and franchise owners have become more sophisticated in acquiring public dollars. The public share of “stadium construction” is often a relatively small amount of

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the final public contribution. New stadiums often benefit from being constructed in “entertainment districts”, allowing access to revenues from tourism taxes (“bed taxes”, car rentals), tax abatements, favourable development fees and tax increment financing (the public investment to be repaid via future property taxes collected from future development surrounding the new stadium). Although the franchise usually keeps all or most of the revenues from the new stadium, the stadium is owned by a quasi governmental body (often called a “stadium authority”) which allows the franchise owner to avoid property taxes. Financing is sometimes raised via tax exempt (cheaper) bonds sold by governments.

The debate over public investment in professional sports stadia has long been polarized. Grassroots critics both liberal and conservative view these investments as corporate welfare. The academics have long discredited the touted economic benefits. The advocates point to the Staples Centre, Camden Yards, Petco Park and Progressive Field as examples of new stadiums playing key roles in urban renewal. More recently, as franchise owners invest more of their own money and governments commit less, the proposed benefits trumpeted by advocates appeal more to community self esteem and less to promises of public economic gain. At the same time, some sports economists and industry observers are admitting that while these projects will not add to the public coffers they can be worthwhile public investments.

LWIB, [Ballpark Digest](#) reacted to the criticisms of the San Jose ballpark proposal.

What's really happening here is that the academic sports economists are living in an ivory tower. Is the ballpark the best use of the land? When you throw in every possibility -- like office and retail -- the answer is no. But is the ballpark the best possible use of the land given the present economic realities? No developer is lining up with development proposals for the site, so to argue the city would wait for a theoretical use of the land is a nonstarter. The office vacancy rate in San Jose and the rest of the Valley is very high, and it could be years before the existing space is filled, never mind create demand for a new office/retail complex. So, the real question -- and one ignored by the "sports economists" -- is whether a ballpark is a good use for the land given current economic conditions. And given the fact that someone is proposing a \$500-million development project in this economy for an empty site in downtown San Jose, the answer has got to be yes.

Even Neal deMause, amongst the fiercest critics of investing public dollars in professional sports stadiums, admitted at his [Field of Schemes](#) blog that the San Jose proposal is a potentially sound public investment. Mr. deMause wrote in part, “...
a new A's stadium could be the next Pac Bell Park, where public costs were actually kept low enough that the modest public benefits of a stadium were worth the subsidy; more than that,

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and it's just throwing money down a hole."

Some of the sports economists appear to be mitigating their philosophical opposition to public investments in stadia for professional sports. Some believe that while there is no tangible economic benefit in these investments, there is an intangible benefit to the residents of these communities. In a recent [Q&A with The New Yorker](#), the most high profile of the sports economists - Andrew Zimbalist - was quoted.

Arenas and stadiums, by themselves, cannot be expected to produce an economic benefit to the local community. It can't be expected to increase the employment level in the community, and it can't be expected to raise per capita income. And that's a straightforward conclusion that comes from detailed econometric analysis that spans thirty to forty years. That doesn't mean there can't be a modest benefit in particular cases, though.

AND

Cities don't build a public park because they expect it will bring in higher income; they build it because they think it's good for the social and cultural fabric of their community. A city might look at a ballfield or an arena in the same way—if you can make a case that building a stadium will be economically neutral, you might want to go ahead and do that, because you think a team will provide a source of cohesion, identity, wholesome family entertainment.

Perhaps after twenty years of outlandish promises from stadium advocates and consistent objection from the sports economists a more reasoned debate has finally emerged. A new ballpark might not transform a city or provide stimulus (at least long term) to the local economy. Such arguments appear to have outlived their usefulness. And perhaps it is also time to admit that relatively modest levels of public investment in these stadiums is not entirely and uniformly wrong. Maybe a new ballpark or arena or football stadium is worthwhile just because a lot of

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people will enjoy it.

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Pete Toms is an author for the [Business of Sports Network](#) , most notably, The Biz of Baseball. He looks forward to your comments and can be [contacted through The Biz of Baseball](#)

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