Economics 051
The Economics of North Carolina

Sports Stadiums – Real Benefits or Bogus Information?

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Every metropolitan area has many things in common – a hustle-bustle big city atmosphere, an excess of restaurants and history galore. More than likely, a professional sports team resides somewhere in the city or its suburbs. In the years 1999 and 2005, thirty new major league sport venues were constructed, put into action, or in the process of being construction (Tu 379). In the past, private entrepreneurs funded the construction of a new stadium in whole, from start to finish. In fact, up until 1953, only three stadiums in the United States *were not* funded exclusively in private (Siegfried and Zimbalist 96). The trend of building larger, nicer stadiums began in the mid-eighties and has continued through 2006. No longer are cookie-cutter, concrete, multipurpose stadiums being built. These "old" stadiums are now inadequate. Despite the history behind these stadiums, they lack luxury boxes, club seats, abundant catering services, and outrageous advertising opportunities (Siegfried and Zimbalist 98). There is no possible way that, in these new stadiums, entrepreneurs (AKA rich owners) could possibly expect enough marginal revenue to cover operating costs (players salaries, leases, etc.). How then are public funds extracted from various sources? Does a stadium *really* generate enough benefits to cover the amount that the public pays for its construction? Who receives the bulk of these benefits? Public and private funds are raised in order to accomplish two main goals: to make non-negative economic profits and in hope to win championships that will result in heightened civic pride.

In the past ten years, three new stadiums have been built alone in North Carolina. Ericsson stadium, finished in 1996, for the Carolina Panthers, the Charlotte Bobcats Arena and the RBC Center in Raleigh are all homes to professional sports teams. Bank of America stadium was built for $187 million – and most of that privately funded. The Panther organization accomplished this feat with cutting edge technology and the sale of Permanent Seat Licenses (PSLs) (Nowell). In 1993, potential fans and business people began buying lifetime rights for season tickets in the new Panthers stadium. In Charlotte, so many PSL owners came forward that an extremely strong case was made for a sports franchise to be placed there. Only $50 million were drawn from taxpayers, compared to more than $300-400 million in other cities' cases. According to the Rock Hill Herald (S.C.), "PSL sales accounted for all of the $187 million needed for construction of Ericsson Stadium. The only burden left on the taxpayers is purchase of the land and early development. This is the fairest, most logical way to fund stadium construction. If the team fails to win championships, the PSL owners have the opportunity to sell their right to season tickets."

Most of the PSLs in Charlotte's case were bought by local or regional businesses – the ones with the most to spend. Charlotte lawmakers used this fact to persuade the public that these businesses would bring customers from all over the country to Panthers games. The additional increases in expenditure (incremental or marginal) circulates through the local economy, a process coined the "multiplier effect." Increased income is given in precise amounts, but pro-stadium lawmakers and owners leave out critical information, and a key fact – the multiplier effect is far from an exact science (Howard 58-9). The public is falsely led on to believe that proposterous increased expenditures at hotels, restaurants, and retail stores yields excessive amounts of "new" local money. Winning a championship, for example, would inject billions and billions of dollars into a local economy using some types of multipliers; unfortunately, this is not the case. Misusing multipliers and forgetting to include all economic costs and benefits is a common downfall that most residents of a town are easily confused and generally apathetic about.

The multiplier effect can easily be misused – the most widely accepted multiplier is known as the *income multiplier*. Multipliers are calculated using confounding computer input-output models that dissect an economy (Howard 65). However, an understanding in basic multiplier calculation is helpful. There are two types of basic multipliers:

1) *Incremental Multipliers* –

$$\frac{\text{Direct + Indirect + Induced Income}}{\text{Direct income}}$$

2) *Real* or *Normal Multipliers*

$$\frac{\text{Direct + Indirect + Induced Income}}{\text{Visitor Injection of Expenditure}}$$

Source: Howard 64

Real Multipliers are widely accepted by today's economists as standard because of the denominator. The amount of increased additional injections of expenditure by *visitors* is the only thing lawmakers should take into account and use to inform the public (Howard 64). Misuse of calculations by only a tenth of a decimal point can cause figures used to make decisions regarding the construction of a new stadium to be off by millions and millions of dollars; one economist could say that bringing the Panthers to Charlotte in 1996 would inject $20 million annually, while another would say $200 million annually.

When a new stadium is built in a new metropolitan area, the benefits are obvious. Additional tourists and visitors are attracted and jobs are created from constructing the stadium itself. Omitting costs, however, can be crippling. Figures are not adjusted for decreased property values in the surrounding area, the stress caused by increased city traffic and thousands of other negative *externalities* – a situation in which private costs differ from social costs (Siegfried 99). Five other common mistakes are summarized here, taken from *Financing Sport* by Dennis Howard and John Crompton:

1) Inclusion of Local Spectators – because of the circular flow model, only expenditures from spectators outside the jurisdiction and whose primary motivation for visiting is the sporting event can be counted.

2) Time-Switchers and Casuals – spectators who merely change the dates of a visit around a sporting event.

3) "Fudging" Multipliers – using multipliers outrageously high.

4) Claiming Total Rather than Marginal Benefits – for example, if the public pays 1/3 of a stadium's costs, they should claim 1/3 of the benefits.

5) Omitting Opportunity Costs – public funds, and for that matter PSL funds, could have been used individually and in whole for other projects of significance.

The paramount reason winning championships, or in that sense coming close (getting to the championship game), increases benefits lies in the faith of fans valuing intangible benefits the most (Groothuis 517). For example, if the sports team in an area in which a resident lives (150 mile radius around Charlotte, for example) does well, the benefits fans and even passive fans receive are very hard to calculate. Stress relief and enjoyment experienced while talking with coworkers around the water cooler cannot be measured monetarily; it can only be measured in theoretical utility points (Siegfried and Zimbalist 99). In an ideal scenario, the success of a professional franchise creates a valuable public good. A fan does not have to enjoy a game live in order to receive satisfaction from the team's success (or grief, for that matter). Tourism and advertising agencies get a type of "free" or public good because of the light in which the city is looked upon. If a championship is won within the city, it is promoted as a major league city – a city of success that will ultimately attract more tourists and represent a larger area, with fans from these larger areas injecting marginal profits for the sports franchise (Siegfried and Zimbalist 101).

What makes the sport of football unique is its schedule – only ten home games at the most will be played per year (plus two pre-season games). The NFL is a monopolist; no other football league even comes remotely close to the profits quoted by the NFL. Team owners work together, and are required to work together by contract, in various ways and form a type of stable cartel. Cartels are agreements in which individuals come together and use restrictive practices in order to control a market, such as the NFL (Downward 4). Individual team profits are sent back to the NFL main office and redistributed equally to all NFL teams, a process known as profit-sharing. This, along with a fairly low salary cap, restricts the amount of influence one team can have in the NFL. Without these restrictions, richer teams would spend huge amounts of money (e.g. New York Yankees) and be able to gain an unfair advantage against the competition. However, profit-sharing and salary caps create a dilemma of their own: teams are constantly trading players and although profits are fairly stable, team performance tends to deviate more (Downward 10). Therefore, every team has the chance of being competitive every year and matches up to some extent with any competition. This creates a situation in which fanatic support and diehard fans are never acquired and team cohesiveness is a bit shakier. Infinite arguments can be made for and against profit-sharing and salary caps, but no real solution will ever be found. Whereas one system is economically efficient and stable, it lacks in competitive drive and consistency.

To the fan, winning means pride and being able to heckle rival friends at work. However, to the owners and investors winning means money. When a new stadium is built, every owner expects to win enough to earn a hefty profit. In the first few years after a stadium is built, profits come easy because of the "honeymoon" effect (Coates 436). The team, stadium, excitement, and experience are all new. This held true especially for the Carolina Panthers, who reached the NFC championship game in just their second season of expansion. Stadiums are constructed with a preconceived notion that the team will be successful, in the league and economically (Coates 438). As teams do not perform and the stadium ages, however, outsiders value the opportunity cost of visiting the host city less and less, until no additional amounts of income are created and negative incomes can even be realized (Groothuis 516). This is the chief importance of a sport team winning a championship. The hangover caused by a championship draws a two to three year notion that this team will be a perennial powerhouse and consistently draws sellout crowds and an abundance of visitors. Conversely, more important than winning championships (economically rather than competitively) is being competitive in industry and selling all seats every game. Demand increasing along a linear curve will stabilize a fairly new fan base (such as the Panthers) and create economic profits for the locality.

Sports stadiums are now built in roughly thirty year cycles. Booms in the 1970s were followed by booms in the last ten years (Tu 380). It is very hard to believe that Bank of America stadium is no longer considered one of the NFL's newer stadiums. Constant renovations are done around the NFL in hope of attracting new business, better players and (in the end) more success on the field as well as in the bank. With multipliers and various arguments for and against building new stadiums and the abundant social costs, would winning a championship such as the Super Bowl for the Panthers really bring in additional marginal income? Increased sales of shirts and memorabilia are not retained, at least significantly, locally. Parades and celebrations may temporarily bring in visitor expenditure, but they are abruptly short-lived. Casual fans quickly forget when the tremendous Super Bowl season is followed by an 8-8 season. With only eight regular season home games and at most two extra home playoff games, the huge capacities of NFL stadiums still do not realize the huge social profits that are so eagerly projected upon construction. The innovative PSL construction helps increase efficiency in dealing with social problems – those who valued the Panthers franchise the most paid for stadium. Social externalities, such as traffic and congestion, pollution from tailgating and value of the land underneath Bank of America Stadium are absorbed by all residents, but in general the Panthers are an accepted team. Although everything in this world revolves around money, as does everything in sport, the common fan can accept a team for what it is: a sense of civic and state pride and a common ground on which North Carolinians can bond. There is no way to measure feelings and pride monetarily; unfortunately, calculations and surveys regarding the exact economic value of a sports franchise are about as accurate as that of a weekend sportscaster predicting the outcome of the Super Bowl. Eventually, the team either becomes inextricably intertwined within the inner fibers of the city's economy or is kicked out because of negative economic profits and lackluster performance.

The Panthers are a lucky team in that minimal public funds were called upon for the opportunity to host an NFL team. North Carolinians and residents of areas surrounding Charlotte bought every single PSL right and took the brute of the funds required for the stadium to be constructed. This represents another positive externality, as fans, like me, can sit at home and enjoy benefits from the Panthers franchise without buying a PSL. This does not necessarily mean that the Charlotte locality would benefit more from the Panthers winning a Super Bowl, but it does bring up a set of interesting questions. In the expensive and expansive world of Professional Football, should public funds ever be used to construct a stadium? It seems that with the variety of calculations, nothing short of a Super Bowl every single year could possibly increase income for a city's residents proportionately with the money spent to build the stadium. It seems that the public is finally getting smart and not allowing public funds (especially with the shortage of state and local funds) to be handed to wealthy entrepreneurs who receive the bulk of the benefit. The Super Bowl will continue to be the biggest sports festivity in the United States, but seemingly the host city has much, much more to gain than the home city of the winner. Economically, winning a Super Bowl for the Panthers is not nearly as important as being competitive year after year. Eventually, renovations to Bank of America Stadium will come – more club seats and luxury boxes will somehow be added as in the trend across the league in an attempt to extract money from the wealthy. Fortunately for the Panthers, they are backed with strong community and public support and have been consistently held a winning tradition in Charlotte.

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