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A. J. Kuznitz
Coastal Carolina University

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**PROFESSIONAL SPORTS TEAMS AND THEIR LOCAL ECONOMIC
IMPACT
2011**

BY

AJ KUZNITZ

FINANCE & ECONOMICS

**Submitted in Partial Fulfillment of the
Requirements for the Degree of Bachelor of Science
In the Honors Program at
Coastal Carolina University**

December 2011

Professional Sports Teams and Their Local Economic Impact

Introduction

There has been debate about whether or not professional sports teams impact their local economies. Research shows local economic growth has been generated from the presence of a professional sports team in multiple ways: the creation of new jobs, increased consumer spending, increased sales in certain market segments, and increased tax revenue. Other beneficial impacts caused by sport franchises are increased tourism from hosting large nationwide events such as a Super Bowl or World Series, and game's media coverage provides free marketing/advertising for home cities. Teams also impact the lives of their fans and cities in non-measurable, qualitative ways, such as the quality of life, city morale, and a "major league" city image. However, hosting a professional sports team is costly; expensive public funding needs to be supported by even greater returns. Therefore, despite the changes in the local economy, there are those who question if the franchise is worth the investment [of public funds]. Some research illustrates the investment of stadiums for teams are not worth the smaller return generated because a greater impact on the economy can be accomplished elsewhere.

Literature Review

Experts who believe professional sports teams do not economically impact their communities base their arguments on asset allocation and the return of those assets resulting from the presence of a sports team. One side of the argument claims the money being spent on stadiums is not worth it. The counter argument states these teams have an impact that is

beneficial for the local economy, by improving the quality of life and causing positive economic growth through multiple market segments subsequently making the investment worth it.

Originally stadiums were funded by the private sector, but now it is publicly funded, making it the citizens' responsibility to pay for the costs of building a new stadium (Coates and Humphreys, 2008). Most of the stadiums are paid for through taxation and issuance of bonds or securities to the public (Coates and Humphreys, 1999), resulting in a lot of money being paid by the taxpayers. Since the cost of supporting the teams and facilities are high, economist Robert Baade disagrees with this allocation of assets and resources, stating that "This study finds no support for the notion that there is an economic rationale for public subsidies to sports teams and stadium and arena construction. Professional sports do not appear to create a flow of public funds generated by new economic growth. Far from generating new revenues out of which other public projects can be funded, sports investments appear to be an economically unsound use of a community's scarce financial resources" (Baade, 1994). According to Baade, the money can be spent elsewhere in the community to gain a greater return on the economy. Expert economist Robert Whelan agrees with Baade and believes a modest factory or small research facility generates more economic growth (Baseball and the American City, 2011).

Because of the amount of money required to finance a team, it is often questioned if a sports franchise is a worthy expense, especially considering there has been increasing pressure on the public to commit even more resources to professional sports. The added pressure is due to the high demand of sports teams with a controlled supply, consequently creating an intense competition for franchises. According to economic researcher, Arthur Johnson, professional sports teams are in high demand in many communities and those that already have them try to innovate ways to retain them (Johnson, 1983). He demonstrates how cities, such as Pittsburgh,

Pennsylvania use creative ways to ensure their National Hockey League team the Penguins, stay there in the future. The city of Pittsburgh issued a permanent injunction against any owners, present or future, from any sale to potential owners who would move the hockey team to another location. The city's local government believes that the Penguins are an important public good. Johnson says "... the Penguins ... contention part of the fabric of metropolitan Pittsburgh [and] is consistent with the claim that the Penguins generate valuable and widely consumed public goods. ... and believes the public goods are so valuable that the injunction enjoined the team from leaving Pittsburgh..." (Johnson, 1983).

The high demand of franchises has also created a bidding war between cities, driving the costs up. Economists Siegfried and Zimbalist say "...the monopoly sports leagues encountered significant excess demand for their franchises from prospective host cities. Leagues expanded the number of teams slowly, mostly after being challenged by rival leagues. The result was that cities bid against one another for the scarce teams, each offering more attractive facilities and lease deals than the next" (Siegfried and Zimbalist, 2000). The increased competition has made the price of supporting a professional team a very expensive one. There are other investments that may generate better economic growth which can result in a greater return in the economy than publicly funded new stadiums.

Other economists also further this argument by studying per capita income. Their research suggests that attracting a professional sports franchise to a city and building a new stadium will have no effect on the growth rate of income and may reduce the level of real per capita income. Humphreys and Coates study that writes "...that the sports environment in cities had a negative impact on the average real level of income per capita and that changes in the sports environment had no measurable impact on the growth rate of real per capita income"

(Coates and Humphreys, 2003). The impact found in this study demonstrates the negative effect on the level of income in the economy caused by sports teams.

The counter argument of the debate states that professional sports teams do beneficially impact the local economy. The experts in the research state the reasons for the positive impact are obvious, and can be determined by measurable data and immeasurable details. The quantifiable impacts are realized through the creation of new jobs, increased tax revenues, increased sales in specific markets, increased consumer spending, increased number of tourists, and free marketing associated with hosting a professional sports franchise. Immeasurable qualities include the “big-league” city image, city morale, and an improved quality of life. All of these innumerable results help show the positive influence on the economy.

The presence of a sports team allows for an increase in employment from the new construction and maintenance of stadiums (Johnson et al, 2001). Jasina, an economic researcher in 2008, conducted a study of a sports arena on employment. He found when a new stadium is implemented sales of retail, lodging, and restaurants all increased. He states “The apparel and accessory store industry is said to benefit because of an increase in foot traffic of visitors at stadium events. Fans of local sports teams will also purchase sport-related memorabilia from local stores...fans who frequent the stadium will also spend money at local restaurants and bars” (Jasina and Rotthoff, 2008). Increased sales helps local businesses generate economic growth. His research also demonstrated that the industry around the stadium has helped the creation of new jobs. Jasina believes increased sales in multiple industries, “... in stores near new stadiums, [and] additional spending at these stores will increase retail employments. Employment at eating and drinking establishments may also increase due to a new sports team...then we should be able to observe an increase in employment and income in these industries after a new franchise moves

in to the area or a decrease as a franchise leaves.” (Jasina and Rotthoff, 2008). He argued that with more money going back into the local businesses, the more capital the firms have to spend on factors of production which are derived from the increase in sales due to increased in traffic at the local businesses (Jasina and Rotthoff, 2008).

Professional sports stadiums also affect residential housing values, according to Professor Charles Tu. His research concluded that the construction of a new stadium, FedEx Field in Kent, Maryland and home to the National Football League (NFL) team the Washington Redskins, improved housing values locally. Tu believes “...the aggregate increase in property value after the completion of FedEx Field is approximately \$42 million and ...the development of FedEx Field improve[d] the value of single-family homes in its surrounding area” (Tu, 2005). His study demonstrated the presence of a stadium increased the value of surrounding properties subsequently, higher housing values imply an increased desirability for that area. The increased desirability for households in the area helps to stimulate positive local economic growth (Tu, 2005).

Another beneficial impact of sports teams on the local economy is through increased tourist traffic for hosting nationwide events and obtaining free marketing and advertising from these events. Through events such as championship games like the Super Bowl or the World Series, can attract a great number of tourists to their respective areas. This increased traffic leads to increased consumer spending in specific markets, such as lodging, retail, and food. There are free marketing and advertising opportunities in which the city can participate during nationwide showings of sports games, most often by promoting visitation and relocation through commercials during games. The marketing and hosting of huge events can help impact the economy in a positive way (Funds and Games, 2005).

Not all positive impacts on an economy are easily measured according to economic researchers Rosentraub and Swindle. They believe that there are intangible benefits such as civic pride and a big-league city image. Rosentraub and Swindle say "...that the image of many cities is frequently defined by high-profile teams and sporting events. The celebratory atmosphere created in a city when a team wins is another intangible benefit even for people who do not attend games. In a society where sports are a dominant cultural icon, teams do create a level of recognition that generates pride for residents of a community" (Rosentraub and Swindell, 1998). They argue that intangible benefits created by a sports franchise are important to a city's atmosphere and its economy. They believe that sports teams promote city morale and increase the happiness of its citizens. The hardest part to measure is how much people are affected. Another hard measurable result is the quality of life, as studied by Siegfried and Zimbalist. Their study explains that enhancing the quality of life ultimately has a huge economic impact on the community and consequently has an impact on the economy (Siegfried and Zimbalist, 2006). All of the aforementioned studies by these experts demonstrate the significant immeasurable impacts caused by the presence of sports franchises, though not being measurable we are provided with no hard evidence.

However, the ability to measure improvements in quality of life and city morale are the limitations to the research. The researchers also promote future studies that can help determine how these psychological benefits can demonstrate a tangible impact. With the experts aware of the difficulty, they take the side that it does impact in a beneficial way; it is a continual question whether or not these benefits outweigh the cost of a sports franchise (Rosentraub, 1996).

There is no concrete answer because an accurate analysis requires the ability to determine how the impact of the non-measurable aspects compare to tangible impacts. The majority of

experts in the research generally agree that there are multiple facets, but for Rosentraub and Swindle, the professional sports teams do not impact the local economy in a positive way. Their research shows that a community can benefit from a franchise; however, the benefits are less than the large cost of having one. They ask: “If the economic returns from teams and their facilities cannot justify the rather large investments made by the public sector for sports facilities, can the intangible rewards from the presence of teams warrant the invest of public resources?” (Rosentraub and Swindell, 1998). The benefits generated, such as employment, increased sales in certain industries, and city morale with the enhancement of the quality of life, do not outweigh the cost induced by the subsidy granted to them by the government. They determined the money spent on the new stadium can be allocated elsewhere to provide a greater economic impact (Rosentraub and Swindell, 1998).

There are a lot of data missing in the research and it is hard to be conclusive. Specifically, with immeasurable effects on a community like, city morale and how those impacts are translated into end results that effect the economy (Carlino and Coulson, 2004). The decision about whether or not there is an impact from the professional sports team is currently incomplete.

Findings

It is inconclusive whether or not the professional sports teams have an impact on the economy. Professional sports teams can have a beneficial impact on its economy and can also have negative impact on its economy. More evidence leads to show that sports franchises have more positive impacts than negative ones; however, there are still factors that cannot be measured, which makes determining a concrete answer impossible.

In some cases, the professional sports team does not provide a positive impact on the economy. This is most common when a team is not extremely profitable and when an expensive stadium costs large amounts of government money. For teams to be able to compete there must be a stadium or an arena for them to call home. Building these necessary stadiums costs a lot of money, and because there is a high demand for these teams it creates bidding wars on stadiums (Coates and Humphreys, 2003). The costs of these stadiums run into the high millions, and sometimes even into billions, of dollars. The expensive cost comes from the competition of cities trying to recruit and retain professional teams to play there. Some of the costs of a new stadium does get paid by the teams, and the local government pays for the rest. The government raises money for funding by issuing bonds and new types of taxes in order to help pay the high costs of arenas (Zimbalist and Noll, 1997). In reality, the tax payers of the city are the ones helping the team pay for a new place to play.

Since the 1990's the United States has compiled over \$6 billion for the construction of stadiums and arenas. That number is up from \$1.5 billion in the 1970-1980's and up from \$500 million in the 1960's. That creates an average cost of stadium in the 1990's to be \$198 million (Baseball and the American City, 2011). An example of how much money goes into a team is located in the city of New Orleans in Louisiana. New Orleans is currently the home to two major sports teams, NFL team: The Saints and National Basketball Association (NBA) team: The Hornets. In a study done by Economic Development Research Group on the economy of New Orleans, the researchers predicted that the people of New Orleans and the local government will be obligated to spend a total of \$1.4 billion dollars by the year 2025. In 1975, the Louisiana Stadium and Exposition District used public funds to build the Superdome, where the Saints play, totaling \$163 million dollars. Public expenditures and commitments for the construction,

operation, and past renovations of the Superdome totaling approximately \$869 million dollars. The public has provided, or committed to provide, \$224 million dollars more for the Saints. Also, the state and local tax authorities have provided various other subsidies, in the form of cash and tax abatements to ensure the Saints remain in New Orleans (Funds and Games, 2005).

With the increased prices comes increased pressure for governments to commit large subsidies in order to help build stadiums and infrastructure around the stadium. There are places where the competition and increased prices have been blown out of proportion, like at the new Dallas Cowboys Stadium. The Cowboys, an NFL team, has a new home located in Arlington, Texas and is three times the size of the old Texas Stadium. At the time in 2009, the stadium was the priciest NFL stadium at \$1.2 billion. The over-the-top stadium includes a high-definition JumboTron, a retractable roof, private clubs and bars, 73,000 suites and an average Fan Cost of \$758.58 per game (Lacayo, 2009). The colossal, four-sided television screen assembly, stretching 160 feet in width and hovering 90 feet above the field, is the world's largest (Lacayo, 2009). According to an article from TIME magazine, "For many fans, especially the ones in the nosebleed seats, what they see on that screen will be their experience of the game. By comparison, the actual teams will be little dots scrambling on a field far below" (Lacayo, 2009).

Stadium	Cost (\$ dollars)	Year
Dallas Cowboys Stadium	\$ 1.2 billion	2009
Florida Marlins Ballpark	\$ 525 million	2012
New Orleans Superdome	\$ 163 million	1975
Total Construction	\$ 6 billion	Since 1990
Total Construction	\$ 1.5 billion	1970-1980
Total Construction	\$ 500 million	1960's

The Fan Cost Index is an average cost for a family of four to purchase tickets, parking, programs, hats, food, and drinks. As presented by Team Marketing Report, that value is \$412.64 average per game for the entire National Football League. The Cowboys Fan Cost Index is almost twice that due to the high ticket prices, which are on average \$159.65 (Lacayo, 2009). High competition and demand for teams helps drive the expensive innovation seen at the new Dallas Cowboys Stadium.

Since there is a great demand for teams, many cities have participated in paying large amounts of money for renovations for teams to stay or new arenas to entice them to play in their city (Siegfried and Zimbalist, 2006). From 1991 to 2006 there has been 64 new major league facilities built. There are currently more than 100 sports facilities nationwide and 70% are publicly owned (Robertson, 2010). One example of high cost of stadiums that doesn't have a clear positive return for all the money spent on stadium construction is that in Tampa Bay, Florida. That is the home of the Major League Baseball (MLB) team, Tampa Bay Devil Rays, who were trying to build a new ballpark at a cost of \$450 million, which called for \$100 million from tourist tax dollars and \$75 million from the city itself. According to United States Sports Academy, "Both the county and city felt that they were being rushed to commit millions of public dollars for the controversial project" (Robertson, 2010). The reason governments are hesitant to spend millions of dollars on sports projects, is because the money being used to construct arenas and infrastructure could be used elsewhere in the economy to generate a greater return. Experts like Robert K. Whelan explain "In the absence of pro sports, they will spend the money elsewhere- lower -level sporting events, the movies, etc...A modest factory, or a small research facility has far more impact" (Baseball and the American City, 2011). Because public

funding of stadiums could be used elsewhere to generate a greater return, some economists believe there is no beneficial impact of professional sport teams on their local economies.

On the other hand, professional sports teams have shown many beneficial impacts to their local economies. Those positive effects include increased consumer spending, creation of new jobs, increased tax revenue, free marketing, and increased tourist traffic. The creation of new jobs comes from the construction and the maintenance of the stadiums (Kim, 2011). An example of this increase in the number of jobs comes from the new ballpark being built in Miami, Florida, home to the MLB team the Florida Marlins. In 2009, Miami-Dade County decided to fund a \$515 million dollar baseball only stadium, along with \$94 million in parking lots to be completed by 2012 (Musibay, 2009). Through the local government's research, they justified their public funds by determining how much of an impact the Marlins would have on their economy. The construction of this stadium project will produce "an estimated 7,781 jobs, making a significant contribution to local employment opportunities in Miami" (Miami Government, 2008). With the development of the Florida Marlin Ballpark, the city of Miami is estimated to receive \$341 million dollars in labor income. Even after the initial construction of the ballpark "will generate over \$140 million in labor income each year" (Miami Government, 2008). The increase in jobs will help generate a positive impact on the local economy (Johnson et al, 2001).

Another important part to the beneficial impacts of a sports franchise on the local economy is all the increased tax revenue it provides for the town. In the Florida Marlins example, the expected fiscal revenues are almost \$103 million with "\$78.5 million, or 76%, flow to the federal government, and the remaining \$24.4 million, or 24%, of tax revenues are allocated to state and local governments" (Miami Government, 2008). There are continuous fiscal revenues estimated at \$57 million each year. The Miami government is also estimated to

receive \$10.9 million dollars of sales tax during the first five years of operation (Miami Government, 2008). Building a stadium also means building more tax revenue for local governments, which in turn will end up back in the economy through government spending. The increased tax revenues also come from larger sales taxes caused by increased consumer spending, generated by increased tourist traffic.

The presence of a professional sports team attracts tourists. Along with the tourists who come for games, the increased spending is generated by the visiting teams, referees and non-local members of press covering the games. The study of the Marlins estimated those expenditures to local lodging, dining and transportation summed to an average of \$2.3 million per year. The local expenditure by the Marlins to operate the facility and team is estimated to average of \$130 million per year. Miami also forecasts increased fan/tourist traffic to bring in about an expenditure estimate of \$45.2 million per year once the stadium is fully functional (Miami Government, 2008). The increased tourist traffic is associated with pre-season and regular season games, and also generated by special events such as playoffs and championship games.

The championship game in professional football is called the Super Bowl. A Super Bowl's tourist is usually in the respective town for the weekend, with the big game being played on a Sunday. The location of the Super Bowl changes each year, and every city that has a team in the league has a chance to host a Super Bowl. These special events help attract a large number of tourists and make a big economic impact. The economic impact of Super Bowls has been increasing with time. For example, in 1996 Super Bowl XXX was held in Tempe, Arizona and was estimated to have a total economic impact of \$306 million dollars (O'Grady, 2011). In 2008, Super Bowl XLII was in Glendale, Arizona and was estimated to have an impact of \$500.6 million dollars (O'Grady, 2011). The greatest economic impact is from 2011 with Super Bowl

XLV in Dallas, Texas that generated \$611.7 million dollars (O'Grady, 2011). The championship game in Dallas alone brought over 700,000 visitors and 4,600 media personnel, generating \$10 million in local tax revenue and \$36 million in additional state taxes (Kim, 2011). Even though the special events are not held consistently in the same place each year, it is hard to deny that they produce an economic impact.

Super Bowl	Year	Location	Total Economic Impact (\$ dollars)
XXX	1996	Tempe, AZ	\$ 306 million
XLII	2008	Glendale, AZ	\$ 500.6 million
XLV	2011	Arlington, TX	\$ 611.7 million

Fortunately professional sports teams are very popular and it does not have to be a championship game in order to draw a crowd. The Cowboys attract an average of 85,000 people at almost every home game (Munsey and Suppes, 2011). The attendance at home games has dramatically increased due to the new stadium. In 2008, the last year in the old Cowboys Stadium, the Cowboys attracted 506,944 fans. The next year in 2009 when the Dallas Cowboys Stadium officially opened brought in 718,055 people. Keeping up almost with the previous year, 2010 accumulated 696,377 fans even during a recession (Munsey and Suppes, 2011). The attraction to a new stadium has increased fan traffic and has helped add the beneficial impact of the economy whether it is a special event or regular season game.

Year	Number of People (Fans)
2008	506,944
2009	718,055
2010	696,377

Additionally, another positive impact generated by a professional sports franchise, is free marketing for the city. The free marketing comes when the teams are broadcasted live on

national television, where the stadium that was publically funded is on display for the world to see. Games are on national television, which helps attract fans that cannot make it to see the teams play in person. In a post written by a writer in the Houston Chronicle, talks about the television ratings for a particular game in the state of Texas. That particular game being the NFL Houston Texans game on October 30, 2011 and which drew a Nielsen rating of 23.6 (Barron, 2011). This Nielsen rating is a rating calculated by Nielsen Media Research that estimates the percentage of people who are watching a particular program, meaning 23.6% of the total local TV population, were watching the Houston Texans game (Television Measurement, 2011). High television ratings reflect large numbers of households watching the game and in return helps to provide local hosting governments with advertising.

In addition teams make a greater impact with greater revenues, and one way for a team to create revenue is through selling advertising rights. Advertising rights enables a company to pay the owners of the facility money to put up signs and even change the name of it. This is what happened to the new stadium that was built for the New York Giants and Jets, NFL teams, in East Rutherford, New Jersey. In August of 2011, the building of the new stadium at the Meadowlands was renamed to MetLife Stadium. MetLife insurance company bought the rights to the NFL stadium to change the name to MetLife Stadium. With this name change, along with four illuminated signs and 120,000 square feet of space at the main entrance to the stadium, MetLife has agreed to pay approximately \$18 million a year for 25 years (Caroom, 2011).

MetLife will also see a great return on their investment in the year 2014 when the Super Bowl is to be held at MetLife Stadium and be nationally displayed through TV coverage of the game (Caroom, 2011). The media attention generated by games creates an opportunity for MetLife

and other advertisers to market to tourists and other viewers therefore stimulating the local economy.

Total economic impact has also help demonstrate that professional teams can positively impact their local economies. Despite high costs, professional sports teams have largely had a positive impact on their local economies. An example of this impact is found in New Orleans, by the presence of the New Orleans Saints. New Orleans has seen dramatic changes in its economy since the team was established in 1967. In the same study done by the Economic Development Research Group, the Saints had a positive impression on its local economy despite their high costs. In 2002, the New Orleans Saints had an economic impact of \$ 402 million dollars for state government and a fiscal impact of \$25.8 million dollars for the federal government. This study also found an average annual economic impact of \$677 million dollars and an average fiscal impact of \$42.5 million dollars between 1994 to 2000 (Funds and Games, 2005). The Saints are one of many professional teams producing positive economic results. For example the projected economic impact of the development of the new ballpark for the Florida Marlins will be \$815 million dollars. The new stadium is estimated to generate almost \$445 million in GDP, Gross Domestic Product. The Marlins' effect on the economy is said to continue beyond the year of construction by accumulating \$299 million per year from recurring activities (Miami Government, 2008).

Aside from the obvious measurable impacts by a professional sports team, both positive and negative, there are also important factors that cannot be measured. The intangible impacts are examples such as the quality of life, city morale, personal pride from ownership, and a “big-league” city image (Carlino and Coulson, 2004). Although these effects cannot be quantified, they do play a vital part in the impact of teams. The quality of life from the enjoyment or

enhanced atmosphere generated by a team is not easily quantifiable and varies from person to person.

Another hard quality to measure is the city morale promoted by a professional sports team often occurring when fans are proud in which they came from, and varies from person to person depending on the individual. A special immeasurable quality is the personal pride and enjoyment received by being a partial owner of a professional sports team. An example is with the NFL team the Green Bay Packers. According to Bloomberg Business Week, the Packers are the only team that is all publicly owned through the distribution of initial public offerings (IPO's) or stocks, meaning anyone who purchases a stock owns a part of the team and can show up to annual stockholder meetings to vote on the managing board of the Packers. Being an owner has the potential to create an increased attendance at games, as indicated the selling out 295 consecutive home games and 80,000 names on a waiting list for season tickets. The article suggests "the Packers' success is a tribute to the careful, constant maintenance of two things: the product on the field and the community's warm feelings about that product" (Greenfeld, 2011). This indicates there is some value to being an owner of your favorite sports team. Quantifying feelings prove to be extremely difficult and is generally overlooked in research and causes uncertainty in expected value of professional sports teams. The uncertainty about the real effects of these immeasurable impacts makes it impossible to definitively answer the overall impact of the professional sports team, being negative or positive.

Conclusion

The impact from professional sports teams on their local economies can be both positive and negative; however neither of those answers is conclusive. Even though the measurable

impacts provide a well devised argument with concrete data, there are aspects missing. The immeasurable aspects that professional sports team produce are not accounted for and therefore a concrete answer is not possible. Measuring psychological benefits is difficult and since there are holes in the research, there are holes in the conclusion about a professional sports team's economic impact. A complete evaluation is not possible with the limited research about this topic and the research needs to be updated to include another newer intangible benefit such as the benefit from owning a professional sports team. All of the immeasurable impacts need to be accounted for in order to produce a definitive conclusion about the local economic impact of professional sports teams. Until someone can come up with a way to value those impacts there is no way to determine if investing in a professional sports team will generate the desired return.

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