Winning at all cost? Sport tourism financing by the United States state and local governments

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Introduction

In the United States, local and state governments have frequently subsidized sport tourism developments including stadiums, arenas, marinas, and centers, with the expectation of substantial economic return on investment. Such projects are touted for their job creation, income generation, tourist attraction, and new business stimulation. Beyond the dollars and cents are several social and political (often understated) reasons for supporting sport tourism projects, including its "goodness of fit" with the local sport culture, and the overall (re)development strategy of the city, ability to enhance the destination's image, and influence on civic morale and pride.

A sport facility construction boom has occurred in North America this decade, financed primarily by tax dollars. For professional football alone, 21 of the National Football League's 32 teams have received new or renovated stadiums. The average deal is a 323 million U.S. dollar stadium, paid 65 percent by taxpayers, that holds 69 200 spectators. A common strategy used by team owners to gain tax dollars for new stadiums is to hold the team hostage, threatening to relocate if their demands are not met. In some cases, owners move the team for a sweeter deal in another city anyway. Typically, city leaders cave in to the demands, and pay the "ransom" to avoid losing the team.

As an example, the St. Louis Cardinals baseball team struggled for years to obtain financial assistance from the city in order to construct a new Busch Stadium. In June 2001, the Cardinals and the State of Missouri signed a contract to build a new ballpark in downtown St. Louis, adjacent to their old ballpark, after threats by owners to take the team across the Mississippi River to

East St. Louis, Illinois. The Busch Stadium is owned by the Cardinals, and was privately financed using a combination of private bonds that the Cardinals were required to repay, bank loans, cash from the owners of the Cardinals and a long-term loan from St. Louis County. In August 2004, the Cardinals and Anheuser-Busch agreed on a 20 year contract to keep the Busch Stadium name alive. Construction of Busch Stadium began in December 2003 with official groundbreaking ceremonies occurring on January 17, 2004. The stadium was open for play in April 2006. More information on the Busch Stadium deal may be found in the appendix of this contribution.

Responding to threats that the Naismith Memorial Basketball Hall of Fame might leave Springfield for Florida, Massachusetts House members voted to provide 25 million U.S. dollar to improve the sport attraction. The threat by officials to relocate the National Basketball Hall of Fame represents one of the few cases in which officials for a nostalgia-based sport tourism attraction used the ransom strategy employed by sport team owners.

Three categories of sport tourists have emerged from previous research: participatory sport tourists, sport event tourists, and celebratory sport tourists.[1] Participatory sport tourists and event spectators are easily recognized. Celebratory sport tourists refer to those who travel to visit places of remembrance, view memorabilia and artifacts and/or consume simulated sport experiences. Celebratory sport tourists visit sport halls of fame, stadiums, cruises, and themed eating and drinking places. While considerable attention has focused on participatory and event sport tourists, relatively little is known about celebratory sport tourism development and financing.

The purpose of this paper is to describe the public financing of selected celebratory sport tourism attractions in the United States: the Naismith Memorial Basketball Hall of Fame, National Association for Stock Car Auto Racing (NASCAR) Hall of Fame in Charlotte, North Carolina, and the proposed National Sports Museum in New York.

Basketball's New Deal

In 2002, a new National Basketball Hall of Fame with a price tag of more than 45 million U.S. dollar was unveiled in Springfield, Massachusetts. Adjacent to the old hall, the new museum displays artifacts of the National Basketball As-

[1] Cf. Douglas Michele Turco, Roger Riley and Kamilla Swart (2002).

sociation (NBA) as well as high-tech exhibits. By all accounts, it is a spectacular structure, both inside and out. A consulting firm estimated that more than 440 000 people would pass by each year, and more than 300 000 of them would stop in to take a look. Construction costs for the new basketball shaped museum totaled 35.7 million U.S. dollar. Its expanded size doubled the exhibit space. Much optimism surrounded the Basketball Hall of Fame's face-lift.

A key component of the project was the development of the properties surrounding the Hall of Fame. The deal was linked to a 109 million U.S. dollar riverfront redevelopment plan on 18 acres along the Connecticut River including a new Hilton hotel, retail stores, restaurants, a tourist information center, a children's museum, and a bikeway along the river. In addition to the 25 million U.S. dollar in state money to enhance the National Basketball Hall of Fame, 11 million U.S. dollar in private investments were secured. A 17 million U.S. dollar bond was issued to help fund the infrastructure for the site, which included highway exit ramps and a parking garage.

Not everyone was keen on the physical placement of the enhanced National Basketball Hall of Fame. James A. Aloisi lamented:

> "The most egregious example of a botched, albeit well-meaning, development decision is the unfortunate siting of the new Basketball Hall of Fame, a potential national tourist attraction, on the edge of the Connecticut River and separated from the downtown by an interstate highway. Simply put: you cannot walk from the downtown to the Hall of Fame without significant effort. Visitors to the Hall of Fame have no feasible way to eat, shop, or do business in the downtown. So the pattern created by this development is: drive past the downtown, get off the interstate, tour the facility, get back on the interstate, and leave town. A wasted opportunity for Springfield."[2]

The City of Springfield was awarded a 4 706 000 U.S. dollar loan guarantee under Section 108 to finance the development of the retail and theater component of the Basketball Hall of Fame Project. The project is located in the City's Neighborhood Revitalization Strategy Area owned by the Springfield Redevelopment Authority. The project was sold in part because it would benefit low and moderate-income persons through the creation of 117 jobs, of which 51 per-

[2] Cf. James A. Aloisi (2005).

cent of the jobs were to be held by, or made available to, low and moderate-income persons.

As has happened with other sport development projects, the promises were too good to be true and soon the reality of low attendance hit Hall of Fame supporters like a slam dunk in the face. It quickly became apparent that Hall of Fame attendance was going to be closer to 220 000 to 240 000 yearly rather than 300 000 to 400 000. To put this in perspective, the national Baseball Hall of Fame in Cooperstown, New York has averaged 330 000 visitors per year for the last decade. Financiers carrying 5 million U.S. dollar in debt from the old Hall of Fame building, as well as a 10 million U.S. dollar mortgage for the Hall's new home, took a look at the bottom line and recognized an infusion of cash was needed quickly.

Jerry Colangelo, owner of the NBA's Phoenix Suns, was recruited for the job, and raised nearly 6 million U.S. dollar in 90 days. He did it by personally donating 200 000 U.S. dollar, then contacting every team owner in the NBA and urging them to match it. Jerry Colangelo was rewarded for his efforts by being inducted into the Hall of Fame as an owner. The retiring debt has since been pared from 6 million to 2 million U.S. dollar. The museum actually generated 500 000 U.S. dollar in income last in 2005.

According to income tax forms filed by the Hall of Fame in 2004, the Springfield Riverfront Development Corporation lost 673 388 U.S. dollar in 2003. The Springfield Riverfront Development Corporation recently announced plans to convert the old Hall of Fame building into a health club complex that will include a climbing wall, a health rehabilitation center, and a sports bar and grille.

The National Basketball Hall of Fame intends to expand on its events, including a high school all-star game, appearances by past and present stars, and its signature weekend, the annual induction ceremony for new Hall of Famers. Last year, the induction ceremony netted the museum 250 000 U.S. dollar. But this has not been enough and the Hall of Fame has resorted to several marketing ploys to stay afloat, as hosting golf trade shows, cheerleading competitions, and corporate retreats to keep the revenue stream flowing. The Basketball Hall of Fame has also entered into a partnership with the National Sports Museum in New York City, with some of its basketball exhibits to be loaned to the museum for a fee.

In a perfect world, basketball fans would flock to the National Basketball Hall of Fame on a consistent basis, but at a time when gas prices are climbing, attendance for the future is uncertain. On June 30, 2006, Hall of Fame officials announced that they had discontinued its annual Tip-Off Classic game on Thanksgiving weekend, ending a 27-year-old tradition.

Redesigning the Basketball Hall of Fame was the cornerstone of Springfield's revitalization strategy based on the planning philosophy to go with one's strength. No other city could lay claim to Springfield's history with basketball. Springfield's development strategy used optimism to sway public perception and support for the Hall of Fame renovation. Springfield's leadership had to do something – anything – to alter the city's path of economic and social depression. Many sport development projects have been overpromised, overvalued, and over budget. Once in operation, many have underachieved. In the short term, the Basketball Hall of Fame would be placed in this category of underachievers.

Before the overhaul, attendance at the Hall of Fame was dwindling, exhibits were stagnant, and the city that hails itself as the birthplace of basketball was close to bankrupt. Even with the new Hall of Fame, the city is still in financial disarray, and many residents in poverty. A quarter of the city's 152 000 residents live in poverty. Nearly 80 percent of the city's 459 million U.S. dollar operating budget is devoted to personnel costs. Springfield is still struggling to right itself under a rescue plan established in 2004 by the state legislature and Governor Mitt Romney. The plan authorized a 52 million U.S. dollar loan for Springfield and put it under the direction of a financial control board comprising the mayor, the City Council president and three people appointed by the governor. Springfield has drawn 22 million U.S. dollar from the loan but the state froze further draws because it was clear Springfield could not repay the money by its due date. Springfield's current budget deficit has been reduced to 6.5 million U.S. dollar, down from 41 million U.S. dollar when it arrived.[3]

NASCAR Hall of Fame

In March 2006, the NASCAR announced that Charlotte, North Carolina, was selected to be the home of its Hall of Fame. The other two cities at the time of the announcement that were in the running were Atlanta, Georgia and Daytona Beach, Florida. The Hall of Fame, which will be located in Charlotte's Center

[3] Cf. Pam Belluck (2006).

City will be developed, designed, and operated by the City of Charlotte and the Charlotte Regional Visitors Authority. The total cost of the Hall of Fame is estimated at 107.5 million U.S. dollar, and primarily be funded by a new two percent hotel/motel tax and contributions from the State of North Carolina and the private sector.

A summary of the financing for the NASCAR Hall of Fame is as follows:

- 102.5 million U.S. dollar in Certificates of Participation (COP) financing supported by the new NASCAR Hall of Fame dedicated 2 percent hotel/motel room occupancy tax
- 20 million U.S. dollar of land value contributed by the State of North Carolina
- 13 million U.S. dollar in COP financing supported by the existing hotel/motel room occupancy tax dedicated to convention center facilities
- 2.5 million U.S. dollar in COP financing for the optional four hundred additional parking spaces supported by the existing hotel/motel room occupancy tax dedicated to convention center facilities
- 5 million U.S. dollar from the State and 6 million U.S. dollar from the City to reconfigure the South Caldwell Street/I-277 interchange, reimbursed to both through sale of excess land

Hall of Fame officials are quick to note that no property taxes or other general fund revenues are included in the deal. In addition, the taxes being used (the existing room occupancy tax dedicated to convention center facilities and the new 2 percent room occupancy tax associated with the Hall of Fame) are dedicated to specific hospitality purposes and are not to be used for general citywide purposes such as community safety and transportation.

The Hall of Fame has been designed and conceived by world renowned architecture firm, Pei Cobb Freed & Partners. The firm has designed iconic buildings in cities worldwide, including the Javits Convention Center in New York City, the expanded Louvre in Paris, the Rock and Roll Hall of Fame in Cleveland and the United States Holocaust Memorial Museum in Washington, D. C. Design work should continue through 2006, with ground broken in spring 2007. The NASCAR Hall of Fame is expected to open in late 2009 but no later than March 31, 2010.

Charlotte is the hub of the NASCAR industry. Currently 82 percent of NASCAR NEXTEL Cup teams, 72 percent of NASCAR Busch Series teams and 55 percent of NASCAR Craftsman Truck teams are based in the Charlotte region. The proposed site is a few miles west of Charlotte Speedway, the site of NASCAR's first race. Another factor that helped in the winning bid was the fact that over half of the total population of the USA was living within a 500-mile radius of the greater Charlotte region. The racing industry's current annual statewide economic impact is estimated to be 5 billion U.S. dollar.

National Sports Museum

In August 2006, construction is scheduled to start in New York on the 93 million U.S. dollar National Sports Museum, with 25 000 feet of interactive exhibits, 360-degree immersion theater; one room devoted to college football's Heisman Trophy, and another to the Women's Sports Foundation's Hall of Fame, named after tennis star Billie Jean King. There will be a large area dedicated to other halls of fame, national governing bodies, and other organizations. The museum is funded by 36 million U.S. dollar from private investors, 5 million U.S. dollar in state-issued taxable bonds, and 52 million U.S. dollar in Liberty Bonds, a federal tax-exempt bond financing program administered by New York to help revive downtown after the 9/11 tragedy. To reach its profit goals of at least 20 million U.S. dollar annually, before paying debt service, the museum will try selling naming rights, and exhibit areas to sponsors. It will also have significant retail space for lease, a restaurant, and evening event space for up to 2 500 people.

Conclusions

Regardless of its direct economic value, real or perceived, losing a sport attraction can have significant social costs and political consequences, real or perceived. The prospects of losing a major sport attraction signals to others that the city is a "loser" ... and politicians do not want to be losers. Should a major sport tourism attraction leave, some argue that businesses will leave, developers will look elsewhere, civic pride and morale will decline, and creativity and innovation will be suppressed. It is little wonder that political leaders, when faced with an ultimatum from owners, will ante up with public dollars to retain sport attractions. As noted by Thomas Junod,[4] there is an inverted

[4] Cf. Thomas Junod (2006).

Maslow-like pyramid of reasons why public authorities support sport attractions, from personal promotion to contributing to the sustainable development of the city.

In the cases of the National Basketball Hall of Fame, NASCAR Hall of Fame, and National Sport Museum, the economic impacts of these sport tourism attractions on the host cities have been cleverly leveraged by their owners to gain public financing for development. In addition, the impacts on civic morale (social capital), and on the destination identity, image, and esteem have also been part of the proposals for public support. The extent to which these facilities can deliver on their promises has yet to be determined, though in the short term, the National Basketball Hall of Fame has failed to achieve its goals to date.

The lodging tax has long been a favorite funding source for tourism development projects, including convention centers and multipurpose arenas, primarily because it allows local politicians to pass the buck to out towners, shifting the financial burden to visitors. Politicians thus avoid taxpayer revolt at the ballot box come election day by sticking the bill to outsiders. Lodging taxes were used to finance in part the three nostalgia-based sport tourism attractions presented in this paper. It should be noted that there is a down-side associated with increasing the lodging tax rate to finance tourism developments. At some point, a city's high lodging tax rates becomes a deterrent for trade and exhibition associations to schedule their annual events. A destination could price itself out of the tourism market with lodging tax rates too far above the going rate.

More research is needed on the travel behaviors and impacts of celebratory sport tourists who visit nostalgia-based attractions. Preliminary investigations reveal the sport halls of fame are usually secondary attractions for overnight visitors (or casuals) and transient excursionists, the latter providing no return on investment for sport tourism developments financed from lodging tax revenues. As part of a destination marketing strategy combined with participatory sport tourism attractions and spectator-based sport events, sport halls of fame and museums may contribute to a city's sustained economic development.

Appendix

The Busch Stadium Deal, St. Louis, Missouri, USA[5]

Under an agreement signed at St. Louis City Hall, the St. Louis Cardinals will build a new publicly owned ballpark adjacent to the current site of Busch Stadium. This will keep the team in downtown St. Louis at least through the 2039 season. The ballpark will be set in a new downtown mixed-use development planned to include office space, street level shops and restaurants, residential units, parking, a new Cardinals Museum, and a world-class aquarium. This new neighborhood will be called Ballpark Village. The total development cost will be approximately 646 million U.S. dollar. The Cardinals and other private developers will be responsible for at least two-thirds of the total development cost. The Cardinals must acquire all of the property necessary for the development, with the assistance of the City and state of Missouri if necessary. The Cardinals will be responsible for completing the ballpark and the entire ballpark village development including parking; residential units; office space; street level commercial and retail space; a baseball museum; and a major entertainment attraction such as a world-class aquarium. The details of these projects will be developed in future project agreements. The ballpark, however, must be sufficiently completed by April 1, 2005, to permit the Cardinals to play the 2005 baseball season there. There will be guarantees, with benchmarks and milestones, that the ballpark village will be completed. Of the total development cost, 346 million U.S. dollar will build a new ballpark in downtown St. Louis to accommodate 49 000 fans. The ballpark will be owned by a public entity, the Sports Center Redevelopment Authority. Thirty percent of the entire development will be built using minority owned-and women owned-businesses, consistent with all applicable federal, state and local laws, and with the Mayor's Executive Order.

The Cardinals

The Cardinals will sign a 35-year lease, with three additional five-year options to play their home games in the new ballpark. The Cardinals will sign a non-relocation agreement and will agree to pay to the public investors a percent-

[5] Source: http://www.cardinals.mlb.com.

age of any gain resulting from the sale of all or part of the team. The Cardinals will pay all cost overruns in the construction of the ballpark and will be responsible for all operating and maintenance expenses, as well as costs for capital improvements, for the ballpark. The Cardinals will contribute the naming rights revenues from the ballpark to two separate funds – one benefiting the state of Missouri and one benefiting the City of St. Louis. These funds will reimburse the state and the City if the new revenues generated by the ballpark fall short of paying for the amounts appropriated by the state and the city. Excess revenues will go to the Authority. The state of Missouri, St. Louis County and the City of St. Louis will receive certain marketing, advertising and stadium access rights for the purpose of promoting economic development and tourism. The Cardinals will cap prices on at least 6 000 tickets per game to be priced at no more than 12 U.S. dollar (as calculated in year 2000 dollars). The Cardinals will donate at least 100 000 tickets per season to youth and charitable organizations throughout the state. In addition, the Cardinals will invest in recreational facilities to benefit disadvantaged youth in St. Louis City and St. Louis County. The Cardinals will continue to pay all state and city school sales taxes as currently assessed. The Cardinals will make annual payments in lieu of taxes to the St. Louis Board of Education, the City of St. Louis and other taxing authorities so that the property taxes generated by the development are no less than the real property taxes paid at Busch Stadium in 2000.

The City of St. Louis

The City of St. Louis will invest a portion of the new taxes created at the ballpark and ballpark village. For 30 years beginning in 2005, the City of St. Louis will make an annual appropriation of 4.2 million U.S. dollar. This 4.2 million U.S. dollar will be used for debt service payments on the publicly owned ballpark, and will capitalize a 60 million U.S. dollar city contribution towards the ballpark development costs. If the new taxes generated by the project do not cover the City of St. Louis' annual appropriation, the City will be reimbursed from its naming rights fund. The City will have the same lookback intervals as the state. The City of St. Louis will reduce the special admissions tax on the gross revenue of all ticket sales in excess of 85 million U.S. dollar a year to 1.5 percent. The City of St. Louis will continue to collect and retain 100 percent of its share of all other taxes.

St. Louis County

For 30 years, St. Louis County will contribute revenue annually from the existing County Convention & Recreation Trust Fund. The amount will begin at 2 million U.S. dollar in 2003, and increase by 3 percent each year. That contribution will capitalize a 40 million U.S. dollar county investment in the ballpark development.

State of Missouri

For 30 years, beginning in July 2005, the state of Missouri will appropriate not more than 7 million U.S. dollar annually. This amount will capitalize a maximum state contribution of 100 million U.S. dollar towards the ballpark development costs. No state sales tax revenue generated specifically for education (Proposition C –1 percent sales tax), or conservation and natural resources (0.025 percent sales tax) will be used to fund the new ballpark. State funding for the new ballpark will be used for construction purposes only. The state of Missouri's appropriation will be based on new sales and withholding tax revenue generated by the stadium project. At no time during the 30-year funding cycle will the state of Missouri receive less in sales and withholding tax revenues than it did in 1999. After the first seven years, and then every five years thereafter, the State will determine whether it has received sufficient tax revenues to pay for the annual appropriations made to the stadium project. If, at any of these look back intervals, the State has received less in new revenue from taxes than it appropriated for that period, the State will be reimbursed from its naming rights fund.

All Parties

The Governor, the Mayor of the City of St. Louis, the St. Louis County Executive and the owners of the St. Louis Cardinals agree to use their absolute best efforts to obtain passage of all legislation necessary to make this redevelopment a reality.

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