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STADIUMS AND PUBLIC AND PRIVATE INTERESTS IN SEATTLE

RODNEY FORT*

“Safeco Field will greatly enhance our financial viability . . . by having added revenue, we can have financial resources to keep Ken (Griffey, Jr.) and Alex (Rodriguez).”

—*Mariners President Chuck Armstrong*¹

“It’s like being invited to a party and finding a turd in the punch bowl.”

—*King County Executive Ron Sims on the final level of public spending on said Safeco Field*²

I. INTRODUCTION

I am flattered to have been invited to contribute to this symposium on sports stadiums. I am sorry if my format is not conducive to the usual legal typesetting. But I am an economist, not a lawyer. Further, since this is a symposium paper, the paper is written for a more general audience than I usually try to reach. So bear with me if you know a few more details and I fail to include your favorite ones.

The story is straightforward, and the point easily seen: The current stadium construction craze may not be worth it. The only reason I even write down the obvious is because it is being ignored in nearly *every major city in America*. I will use the ongoing situation in the city of Seattle to make my point, even though it is just as valid in any other city embroiled in a stadium mess (take your pick: San Francisco, Detroit, Seattle, Pittsburgh, Denver, Cincinnati, Nashville, and most recently Houston and San Diego).

In the state of Washington, there have been consecutive agreements between voters and/or politicians and team owners to pay nearly \$1 billion in total for two sports facilities (and it reaches \$1 billion if you throw in the Key Arena, partly publicly funded in 1993). The citizens of the

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1. Alan Snel, *Safeco Field Will Make M's A Valued Member of Major League Baseball*, SEATTLE POST-INTELLIGENCER, July 2, 1999, at A1.

2. Linda Keene, *How We Got Priciest Stadium*, SEATTLE TIMES, June 28, 1999, at A1.

state of Washington have already spent around \$517 million on a stadium for Major League Baseball's (MLB's) Mariners.³ The total cost is another \$100 million over that promised by the team owners. And, spending of another \$500 million or so has been approved for a stadium for the National Football League's (NFL's) Seahawks. They have already begun tearing down the Kingdome, previous home to both teams.

How did this massive spending approval transpire? How can one analyze whether these stadiums are worth it to the public? Is there any history that can inform voters and politicians about such massive transfers to private individuals? Finally, is there anything out there in the way of an analytical, social science explanation for the outcome?

The answers are pretty clear. Some spending was approved by direct democracy and other spending was approved by representative democracy. It is extremely unlikely that the amount of spending is "worth it" by any reasonable evaluation. For the Seattle example in particular the history of the Kingdome's financing and eventual construction should have stood as a warning. On the analytical front, the usual model of electoral politics in the presence of market power provides a solid explanation and prediction in this situation. The paper addresses these points and offers a few ideas about how remedies might take shape.

II. SEATTLE: THE \$1 BILLION STORY

The Seattle story offers an interesting example of nearly everything that can occur in stadium financing and construction. The relationship between fans, their team, and the owners of those teams, the intrigue of threats to move teams, public revelation of spending preferences through referenda, and the response by state and local politicians to rejection by voters. Let us look at the combination of these elements first for the Mariners and then for the Seahawks.

When the previous owner of the MLB Mariners, Jeff Smulyan, finally called it quits, the Baseball Club of Seattle was gently coaxed into saving the team (this presentation of the Mariners case is a brief version of that appearing in *Hard Ball: The Abuse of Power in Pro Team Sports* authored by James Quirk and Rodney Fort).⁴ Smulyan paid about \$77 million for the team in 1989 and the current owner group bought him out

3. See Art Thiel, *Quality Aside, Ballpark's Cost Embarrassing*, SEATTLE POST-INTELLIGENCER, Apr. 13, 1999, at D1.

4. See JAMES QUIRK & RODNEY FORT, *HARD BALL: THE ABUSE OF POWER IN PRO TEAM SPORTS* (1999) [hereinafter *HARD BALL*].

for about \$106 million in 1992.⁵ The issue of a new stadium was not immediate, but it did not take long. In the usual way, the owners made it clear that they were annually losing millions of dollars on the team. Still it is impossible that this really was the case, regardless of the paper losses reported by the team.⁶ In a tearful announcement in 1996, team executive John Ellis announced that the Mariners would be sold. Speculation at the time placed the new owners in the Washington, D.C./Northern Virginia area.

The issue went before the voters of the state of Washington. In a special election on September 19, 1995, the stadium vote in King County failed by a narrow margin (246,500 to 245,418) determined in the final analysis by absentee ballots.⁷ But fail it did. Voters were unwilling to raise the sales tax by half of a percent toward the projected \$240 million cost, plus repairs to the Kingdome. A team moving to Washington, D.C./Northern Virginia now seemed imminent.

This would seem a pretty clear directive, but imagine the situation now facing state and local politicians. From their perspective, nothing could be worse than a close vote that fails. If they leave it as the vote dictated, nearly as many constituents are angry as would be if they intervene and find the funding anyway. How can there be any political profit in this issue? But, in this situation, if you irritate the politically less potent and help the politically potent, re-election chances can be enhanced, on net. We can deduce that those must have been the political margins, since the "will of the people" was overridden by a unified response of elected representatives at all levels.

Senator Slade Gorton and Governor Gary Locke stepped in, found some state funds and a way to ease a spending limitation for King County, and sent the issue back to the King County Council. After short deliberations, the subsequent council vote in early October was in favor. In 1997, \$414 million was authorized through state bonds.⁸ Implicitly, the city also threw in about \$33 million with a grant of land.⁹ The team agreed to pay \$45 million, plus any overruns beyond a specified buffer, as their share.¹⁰

5. *See id.* at 212.

6. *See id.* at 93-116; *see also*, JAMES QUIRK & RODNEY D. FORT, *PAY DIRT: THE BUSINESS OF PROFESSIONAL TEAM SPORTS* 88-124 (1992) [hereinafter *PAY DIRT*].

7. *See* *HARD BALL*, *supra* note 4, at 226.

8. *See id.* at 143.

9. *See id.*

10. *See id.*

But, with stadiums it seems that the “best laid plans” are soon put asunder. First, it appears that the final public tab is closer to \$517 million including overruns beyond the specific buffer. Most of these overruns are due to the relentless push by the Mariners’ owners to meet a 1999 opening date. And, of course, the owners are balking at payment.

Second, while all attention was on building the stadium, nobody seemed to pay any attention to the lease “negotiations.”¹¹ For example, \$30 million of the owners promise came out of naming rights (hence, Safeco Field) specifically granted to the team in the lease.¹² In a sense, these are just stadium revenues collected for the stadium authority by the owners. The authority could certainly have just collected it and kept the money! The Mariners also get all revenues generated by the stadium, including parking and concessions, for about \$2.6 million per year (\$700,000 in rent, down from \$1.39 million at the Kingdome, plus profit sharing that may or may not happen).¹³

It is true that the Mariners pick up the \$10 million in annual maintenance, but the revenues are much higher than that. The lease also obligates the Mariners to stay in Seattle until 2020. But who would not sign that lease? Essentially, the state is building them a facility and simply turning the keys over to the team. The result is a significant injection of revenue into the team, and the lease guarantees that the injection will continue for the next twenty years.¹⁴

The story of the stadium/exhibition center for the NFL Seahawks does not take nearly the same length to cover, because that facility has not been built yet. Previous Seahawk owner Ken Behring, pretty much despised by Seahawks’ fans, demanded a new stadium in 1995. Denied, he trumped up some silly geographical data on the Kingdome’s vulnerability to earthquakes in order to invalidate the lease and move the Seahawks to Hollywood Park, California. All his bags were packed, he was ready to go (the team was actually loaded in semis and pointed south on Interstate 5), when the NFL stepped in to stop the move.

During the cooling off period, billionaire Paul Allen made an interesting offer, backed by his purchase of an option to buy the team. If the people of the state of Washington would cover the lion’s share of a new stadium/exhibition center, then he would exercise the option and buy the team for the asking price of around \$250 million. If not, then he would

11. *See id.*

12. *See id.* at 146-147.

13. *See id.* at 144.

14. *See id.* at 139-147.

let the option expire, setting the team adrift in a sea of hungry cities looking for a team. He even offered to personally finance the cost of running a referendum election on the issue.¹⁵

So, instead of the usual approach of buying the team and then going after a stadium, Allen asked Washington voters and their politicians to prove that it was worth it to him in the first place by promising to put the team in a new stadium. The exhibition center component received nearly no play, but is an essential element, as we will soon see. He just started the clock and waited to see if there was a response before the option period expired.

There was quite a response. The referendum put before Washington voters, June 17, 1996 was quite a combination pizza of funding sources:

- A sales tax credit of \$101 million.
- Lottery games required adding \$127 million.
- A ticket tax of \$52 million.
- A room tax extension in King County of \$40 million.
- A stadium parking tax of \$4 million.
- A \$27 million construction tax break.
- \$14 million in interest on a \$50 million escrow account set up by Paul Allen.
- The Kingdome debt would be retired and that facility torn down.

The total of \$365 million is more than the \$325 million public share appearing on the ballot because of a contingency reserve and money for ball fields around the state. And, note now that the exhibition center portion of the project will be guaranteed monopoly status since the Kingdome would be “retired.” Paul Allen promised to pay the balance of \$100 million on the \$425 million facility, plus any cost overruns beyond a specified buffer.

Allen spent \$6 million on the election (including \$3 million to pay for the expense of running the election) while opponents spent about \$160,000.00.¹⁶ Some of the publicity, analyzed in the next section, while apparently legal, was less than forthcoming about the actual impacts of the proposed funding arrangement. In any event, Proposition 48 passed, 51.1% to 48.9%.¹⁷ Unlike the Mariners issue, which failed by about the same margin as this one passed, the outcome was taken as a strong dic-

15. *See id.* at 160.

16. *See id.*

17. *See id.* at 226.

tate by the people to get busy on the new complex. This is pretty clear testimony to the power of pro sports teams in the political process.

Well, so much for the stories. Next, let us wonder just what is in it for the parties involved in this spending. Clearly, owners benefit. But it is worth seeing just how they benefit in order to understand why the outcomes are structured in specific ways. In particular, lease rearrangements are nearly as important as gate revenue increases. Further, since it is the people of the state of Washington footing nearly the entire bill, we should at least think about claims that stadiums represent the biggest boon to localities since federal government block grants. Let us check these ideas out in the next two sections.

III. THE VALUE OF STADIUMS TO OWNERS

It is easy to see that stadiums are extremely valuable to owners. There are two threads to the evaluation. First, attendance and winning percentage both rise with a new facility. Of course, revenues rise too. This is one of the major selling points for public involvement. With increased revenue, the team finds it valuable to hire more talent and at least keep pace with competition in the league. Fans enjoy a better team. We will see below that this is, by and large, true. But the exception proves especially enlightening, since that case provides a comparable set of circumstances to the Mariners' situation.

The second thread of evaluation also concerns revenues. Typically, when a team moves into a new stadium, lease arrangements are dramatically altered in their favor. This can be worth millions of dollars to the team. Interestingly, these lease alterations also represent millions of dollars that could go to defray the annual cost of the stadium. Policy makers or owners never acknowledge this outcome, publicly, to my knowledge. Only outside instigators like me ever raise these issues.

Looking first at the attendance and winning component, *Pay Dirt: The Business of Professional Team Sports*, authored by James Quirk and myself, analyzes these impacts from new baseball stadiums for the decades of the 1960s and 1970s.¹⁸ Over that period, attendance increased at new stadiums by 62%, on average, across teams for the first five years in a new stadium, relative to the five years prior.¹⁹ Furthermore, winning percentage rose about thirty-five points on average.²⁰ This type of increase is enough to win about five more games per season. That is

18. See *PAY DIRT*, supra note 6, at 125-178.

19. See *id.* at 137.

20. See *id.* at 139.

typically enough to move a team up a notch in the standings. And this chain of events, from attendance to winning to revenue, is what Armstrong is talking about in the epilogue of this paper. But, as we will see shortly, such a chain of events is not a sure thing for all teams, especially, the Mariners.

Let us see how tenants of recently built stadiums have fared in the attendance and winning departments. The list includes the Baltimore Orioles (Camden Yards opened in 1992), the Texas Rangers (The Ballpark at Arlington opened in 1994), the Chicago White Sox (New Comiskey Park opened in 1991), and the Cleveland Indians (Jacobs Field opened in 1994). Other tenants of new stadiums are either expansion teams with no "before" data, or their tenancy has been too short to generate before and after comparisons. By the way, at these newer parks, the move is in the opposite direction in terms of size, away from large stadiums to cozier parks. If these new wave stadiums are going to generate superior team outcomes, it will have to be because of the mix of types of seats, especially club seating and luxury suites, and fan's willingness to pay more for them.

Table 1 shows that the increase in the five-year average for both attendance and winning percentage after moving to a new stadium swamps that of the earlier sample, for three of the four teams. In the extreme, attendance for the Cleveland Indians rose 114% *annually* on average and winning percent rose by about 152 points on an average basis. That type of increase is enough to win another twenty-five games a year! But winning did not really change at all for the Texas Rangers. More on this in a couple of paragraphs.

TABLE 1
ATTENDANCE AND WINNING AT NEW BALL PARKS

Attendance					
Team	New Park	Pre Attend	Post Attend	Difference	%Change
White Sox	1991	1,359,226	2,300,714	941,488	69.3%
Orioles	1992	2,163,516	3,298,714	1,135,198	52.5%
Indians	1994	1,392,965	2,978,394	1,585,429	114%
Rangers	1994	1,084,247	2,648,522	1,564,275	144%
Winning Percent					
Team	New Park	Pre W%	Post W%	Difference	%Change
White Sox	1991	0.490	0.541	0.051	10.4%
Orioles	1992	0.455	0.535	0.080	17.6%
Indians	1994	0.443	0.595	0.152	34.3%
Rangers	1994	0.511	0.509	-0.002	-0.5%

Turning to revenue, the data that exist present separate gate and venue revenue categories, for the period 1990-1996. Therefore, we can only look at the Rangers and the Indians in a before and after comparison. The two revenue reports are in Table 2. Note that both gate and venue revenues rose substantially in the 1994-1996 (after) period, relative to the 1990-1993 (before) period, especially for the Indians. On average, the sum of these increases for the Indians was about \$33 million per year. That will cover some superstar services for a couple of years at least.

TABLE 2²¹
GATE AND VENUE REVENUES AT NEW BALL PARKS

Gate Revenue in millions					
Team	New Park	Pre Gate	Post Gate	Difference	% Change
Indians	1994	\$12.4	\$34.1	\$21.7	174%
Rangers	1994	\$18.4	\$28.2	\$ 9.9	53.9%
Venue Revenue in millions					
Team	New Park	Pre Venue	Post Venue	Difference	% Change
Indians	1994	\$ 3.4	\$14.7	\$11.2	328%
Rangers	1994	\$10.2	\$18.8	\$ 8.7	85.6%

The earlier point about the value of lease adjustments is borne out by the data in Table 2. First, venue revenues rose more than gate revenue for both teams, in percentage terms. Nearly all of that can be attributed to different lease arrangements and higher concession and parking prices. If someone else injects capital into your endeavor, and expects nearly nothing in return, then net revenues will rise. This is exactly what happens when the new lease is more generous than the old. The data shows that this lease-related injection was worth \$8.7 million and \$11.2 million to the Rangers and Indians, respectively.

The foregoing suggests two things about the Mariners. The value of the Mariners will rise, but if their market is more comparable to that of the Rangers than to the Indians, it does not appear likely that they will become a better team. Their value will rise as they move into Safeco Field since their lease is nearly a turnkey document. Regardless of what happens on the field, the asset called "the Mariners" now should generate more revenue than it used to generate just because of a more gener-

21. Calculated from data in *Forbes* magazine, various issues.

ous lease. Indeed, one source puts the value of the Mariners at \$240 million, up from \$106 million at the last sale.²²

But there also is reason for skepticism about the impact of a new stadium on winning and the long-term prospects for the team to improve. This observation is based on the idea that the Mariners' market is similar to the market of the Texas Rangers. Rangers attendance rose more than that for any of the other three teams (again, on a five year average) in Tables 1 and 2. But winning percentage remained essentially unchanged! Despite this, both gate and venue revenues rose. But they only rose at about one-third and one-fourth of the levels enjoyed by the Indians for gate and venue revenue, respectively. The "attendance-winning-revenue" pattern of the rest of the teams with new stadiums did not hold for the Rangers. They did not win more, and their revenues were way off the pace of the Indians who did win substantially more. As a result, looking at the sum of gate and venue revenues, venue revenues are 40% of the annual average increase for the Rangers, but only 30% for the Indians. There is just something different about the response by Ranger fans and Indians fans to their new stadiums. Since the Mariners' market is much more like the Rangers' market than it is the rest of the teams profiled in Tables 1 and 2, let us dig in a little deeper and relate this outcome to the prospects for the Mariners.

The answer probably lies in the level of possible revenues at places like Texas and Seattle, versus Cleveland, Baltimore, and Chicago, rather than in the existence of new stadiums. Fan demand generates gate revenue, venue (parking and concession) revenue, and TV revenue, especially local TV revenue for MLB teams. A stadium provides a flow of services that helps determine that revenue, but willingness to pay is determined by fan demand. In this sense, it is the willingness of fans to pay for winning that determines the level of winning that will make owners as much money as possible.

The problem for teams like the Rangers and Mariners is that their fan demands characterize the teams as "small revenue" markets, regardless of whether or not there is a new stadium. A new stadium can enhance revenues, primarily through lease rearrangements, but a new stadium does not change the fact that they are in small revenue markets. The following is an example of how a "small revenue" market impacts the Mariners.

22. See Kurt Badenhausen & William Sicheri, *Baseball Games: Revenue Sharing has Struck Out. So Why Does Bud Selig Want Another Inning?*, FORBES, May 31, 1999, at 112, 114.

When the Mariners were as successful as they have ever been, nearly making it to the World Series in 1995, attendance was only 1.6 million. And, as you can see from Table 3, local TV only increased \$1.83 million to a total of only \$7.4 million. While this is a hefty 34% increase, the total is peanuts in a world where local TV on the order of \$60-\$70 million in places like New York, plus nearly sold out attendance, determines division and league championships. When they made the play-offs again in 1997, attendance was at a record 3.2 million. This time, the local TV response was a whopping 48%! But, alas, the total left the Mariners well short of any reasonably competitive amount, totaling only \$15.3 million. Again, the "small revenue" nature of the Seattle market makes it more like Texas than any of the other teams. And so, we should expect pretty much the same thing in terms of winning and revenues for Seattle that we saw there. And certainly that is much more likely than any type of response that occurred in the other three locations.

TABLE 3²³
SEATTLE MARINERS LOCAL TV REVENUE,
1993-1998 IN MILLIONS

Year	Broadcasting, net.	\$1999
1993	\$ 2.5	\$ 3.2
1994	\$ 3.5	\$ 4.4
1995	\$ 5.5	\$ 6.7
1996	\$ 7.4	\$ 8.6
1997	\$10.3	\$11.4
1998	\$15.3	\$16.2

The upshot of this is that building talent is a long-term endeavor, dictated by the revenue potential of a given market. Even if revenues do jump substantially with movement into a new stadium, hiring beyond the team's market revenue possibilities in the short run is foolishness. In fact, one could argue that this is exactly what is happening to the Mariners right now. When the current owners took over, they raised the quality of the team significantly (thus, play off contention in 1995 and 1997). But their payroll has been high, relative to revenues. And while attendance has responded somewhat, other elements in the revenue structure have not. Now, they have a new stadium but can not sign their stars,

23. Telephone Interview with Angelo Bruscas, Columnist, *Seattle Post-Intelligencer* (May 28, 1999).

Ken Griffey, Jr., and Alex Rodriguez.²⁴ Future revenues from the stadium that will come primarily through the new lease, will not change the Seattle market. The Mariners quite possibly have run out their string with the Griffey/Rodriguez show and are now about to fall back to their usual role of lovable losers and suppliers of solid talent to the rest of the league. Even with a new stadium.

IV. THE VALUE OF STADIUMS TO TAXPAYERS

From the public perspective, one comment on the last section might well be: Why should public expenditure on the order of hundreds of millions of dollars go to create tens of millions per year for sports team owners and players? The answer is that there may be other values created by the presence of teams that do not accrue to owners and players. If so, then the question really becomes: When is such an infusion into private pockets necessary in order to also enjoy the other values sports teams create?

The answer is as follows. The direct revenues from stadium operations—home team share of ticket revenue, concession revenue, PSL fees, box rentals, parking revenue, naming rights—determine the private return to investing in a new stadium. If these fall short of the cost of the stadium, however, then it is not worth it to a private investor. Sometimes, these revenues *have* been sufficient for private investors. RFK Stadium for the NFL's Washington Redskins, Pro Player Stadium (formerly Joe Robbie Stadium) for the NFL's Miami Dolphins, and many arenas for hockey and basketball are privately owned and funded.

Most often though the claim is that the private returns are not large enough and private investors, owners or otherwise, have not brought the funding forward. We have to be careful about this claim, since there are pretty good reasons to believe that owners might get subsidies through the political process, even if a given stadium were privately feasible. But let us save that analysis for Section VI.

So, for at least a couple of reasons owners may come to the public. And they appeal to the public on two grounds. First, the team needs the infusion to stay competitive and, second, that there will be "spillover" benefits to all concerned. Let us look at these spillover benefit claims.

First, there may be so-called direct and indirect economic benefits, during and after the construction phase. "Direct" simply means that the

24. Ken Griffey Jr. was traded from the Seattle Mariners to the Cincinnati Reds before the 2000 season.

benefits are associated directly with the operation of the team, like the value of a contract with suppliers of inputs to stadium operations. "Indirect" just expands the circle of benefits a bit wider. Adjacent businesses that enjoy increased traffic due to the presence of the team receive such indirect benefits. Direct and indirect economic activity benefits typically are presented in terms of the jobs and the income associated with the presence of the team plus any tax revenues that are produced.

There are three very careful distinctions that must be made concerning this type of economic activity if its measurement is to truly reflect the added benefits to the public. First, the jurisdiction must be defined. If the expenditures are at the city level, then the activity should be measured relevant to the city limits. The activity should be measured inside the county or state borders for those types of issues. This careful definition helps one to carefully track activity that *enters the jurisdiction*, rather than activity that just *moves within* the jurisdiction. The only sense it would make to measure just city activity, paid for by the entire state is if the stadium issue is considered a statewide urban renewal project.

The second careful distinction concerns *new* economic activity versus what would have taken place somewhere else in the jurisdiction anyway. Since the point is to compare the extra benefits and extra costs, only new activity matters. For direct activity, take the example of a trucking firm that brings supplies to the stadium. If the stadium were not there the firm would take its next best contract. Thus, it is the difference between the value of these two alternatives that actually is added by the presence of the stadium. For indirect activity, suppose a countywide jurisdiction. A restaurant moves closer to the stadium from elsewhere in the county. It is only the increase in activity at the restaurant, if any, that actually is attributable to the presence of the stadium.

The third distinction is actually a measurement issue. If at all possible, new *value added* is the key. Value added measures just the amount net of the cost of inputs. For example, if it were known how large the new direct activity will be, and incomes also are known, then value added would be equal to the new direct activity minus the new income. This is because that income would have been earned somewhere else anyway.

These three careful distinctions generate a couple of simple rules of thumb in thinking about economic activity. First, there can be no new spending to measure if no new income is generated. New income is most likely to come out of general growth or reduced savings, and it would be

pretty hard to argue that growth happens because of a new stadium as opposed to returns to past investments by other businesses.

It is this simple observation, driven by the focus on new activity, which tends to suggest that there is no economic activity value attributable to stadiums. Nearly all of the construction phase would have gone to another project within the jurisdiction. If specialized inputs are imported from outside the jurisdiction payments flow outside the jurisdiction as well.

The same goes for economic activity after the construction phase. All inputs would have been put to their next highest valued use absent the stadium. And spending by fans, if it increases, must have been reallocated from other spending that would have been done. The recent book, *Sports, Jobs & Taxes: The Economic Impact of Sports Teams and Stadiums*, edited by Noll and Zimbalist, is full of examples where new economic activity is either zero, or negative.²⁵

Tables 4 and 5 show the estimates of direct and indirect economic impacts for the Mariners and Seahawks, respectively. This type of activity analysis appears during debates surrounding almost all of the stadium issues I have encountered. The reports in Tables 4 and 5 are better than most because they at least take a stab at distinguishing new economic activity. The "output" category is the total economic activity generated and it is the new column that is relevant (even though the total typically is reported by the press!). But following the other important distinction, one should subtract income from output to get *new value added*, an annual amount equal to \$17.5 million for the Mariners and \$28.3 million for the Seahawks.

TABLE 4²⁶
ECONOMIC IMPACT REPORTS FOR THE MARINERS,
1993 IN MILLIONS

Economic Indicator	Total	New
<i>Direct Economic Impact</i>	\$ 91.1	\$29.1
<i>Direct and Indirect Impact</i>		
Output	\$142.0	\$42.9
Employment	2249	427
Income	\$ 70.1	\$25.4
Tax Revenue	\$ 7.2	\$ 1.5

25. See *SPORTS, JOBS & TAXES: THE ECONOMIC IMPACT OF SPORTS TEAMS AND STADIUMS* (Roger G. Noll & Andrew Zimbalist eds., 1997) [hereinafter *SPORTS, JOBS & TAXES*].

26. DICK CONWAY AND ASSOCIATES & WILLIAM B. BEYERS, *SEATTLE MARINERS BASEBALL CLUB ECONOMIC IMPACT* (1994).

TABLE 5²⁷
 ECONOMIC IMPACT REPORTS FOR THE SEAHAWKS,
 1995 IN MILLIONS

Economic Indicator	Total	New
<i>Direct Economic Impact</i>	\$ 85.0	\$45.7
<i>Direct and Indirect Impact</i>		
Output	\$129.2	\$66.7
Employment	2692	624
Income	\$ 66.6	\$38.4
Tax Revenue	\$ 5.4	\$ 2.4

If these were the only values generated by the stadium expenditures (we will discuss a couple more types of value directly), the return would be pretty poor indeed. Suppose each stadium was to be paid off in twenty years. At 6%, payments of just over \$38 million per year for the Mariners (latest reported share, \$515 million) and just over \$24 million per year for the Seahawks (promised share, \$414 million) would just do the trick. If the new *output* estimates in Tables 4 and 5 were used as a comparison, the Mariners value is only 1.1 times the required payment while the Seahawk value is 2.8 times the required payment. But if we use new *value added* instead, 2.2 times the new value added by the Mariners would be required while all but \$4.3 million of the Seahawk economic benefits would be required just to cover the financing of the public's share. Not much of a net return on the Seahawks, and it appears that the public has been taken for a fiscal ride on Safeco Field.

But there may be other values created than just new value added from economic activity. "Big City" reputation, or development value often is cited as an important spillover from the presence of a team. "Without the Brewers, without the Bucks, without the Packers, we ain't nothing but Nebraska," said Wisconsin state representative Marlin Schneider.²⁸ This type of value can be characterized in its simplest terms as follows. Suppose that Microsoft is thinking about a new location. The firm shops around and generates similar offers (tax breaks and infrastructure support) from two locations, Portland and its current Redmond, Washington location (just outside of Seattle). Further, for the sake of argument, suppose everything else is the same. The "Big City" value of sports teams would then swing the balance in Redmond's direc-

27. DICK CONWAY AND ASSOCIATES & WILLIAM B. BEYERS, Seattle Seahawks Economic Impact (1996).

28. *Sound Bites*, THE SPORTING NEWS, Oct. 16, 1995 at 5.

tion, since they are close to three pro sports, while Portland is only close to two.

But analysts have been unable to find any development value for cities with sports teams. Works by Baade and Rosentraub and Nunn try to do the following: hold everything else about a group of cities constant, except for the presence or number of sports teams, and see if there is any positive relation between the presence or number of teams and growth rates.²⁹ They found no such relationship. So far, development value cannot add much to the already weak picture for the Mariners and Seahawks based solely on economic activity. This is especially true since nothing about the number of teams is changing!

Finally, it is doubtless that there are many other intangible benefits that cannot be captured by team owners. Commonality and bonding among residents when the team does well (and when it does not, as Cubs fans would attest) are one of these types of benefits. But there are also income impacts. I, for one, am richer (in terms of reputation enhancement) because I have the Mariners and Seahawks to write about for this paper. But I confess that I have never attended a Seahawks game. As another example, how much less would the daily newspaper sell for if there were not any home team pro sports reports in it?

Unfortunately, these intangibles are almost impossible to measure. If you ask fans what it is worth to them individually to keep the team in town, they say one thing, and if you ask them how much they are willing to be taxed for the same purpose, the answer is much less.³⁰ So, allowing these types of estimates to enter into the analysis opens the process to tremendous bias. And besides, taxing people on the basis of such statements is problematic at best.

So, the spillover value is the sum of direct and indirect economic activity, development value, and other difficult to measure intangible values. If this sum exceeds the costs, then a stadium has earned a place in the list of possible public projects. But the entire bulk of analysis is against this idea. Most notably, the recent Brookings Institution conference on Sports, Jobs, and Taxes produced the most valuable book on the subject and the verdict is clearly against stadiums.³¹

29. See Robert Baade, *Is There an Economic Rationale for Subsidizing Sports Stadiums?*, 13 HEARTLAND INST. POL'Y STUD. 1, 1-26 (1987); Mark Rosentraub & Samuel Nunn, *Suburban City Investment in Professional Sports*, 21 AM. BEHAV. SCIENTIST 393 (1978).

30. See HARD BALL, *supra* note 4, at 157-58.

31. See SPORTS, JOBS & TAXES, *supra* note 25.

V. THE LESSON OF THE KINGDOME

The history of the Kingdome certainly was available to Seattle voters at the time they were voting on the \$1 billion in stadium spending. It is a history of delay, frustration, and cost overrun. But before we get to that, let us remember that during this time period, the late 1960s, a "build it and they will come" logic was in operation in Seattle. The city's first MLB team, the Pilots, did not make the scene until 1969. And the current team (after Bud Selig moved the original Pilots to Milwaukee in 1970) came in 1976. The NFL Seahawks (a 1974 expansion franchise) preceded the Mariners by only two years.

In 1966, an election for \$25 million (\$143 million in 1999 dollars) failed. Later, in 1968, a \$40 million (\$213 million in 1999 dollars) election did pass. MLB granted a franchise to Seattle in 1968 and play began in the 1969 season at old Sick's stadium. During the debate surrounding the 1968 election, the projected opening was 1970. After the election results were in, a revised date of 1972 was given, a delay of two years in one day! The Pilots went bankrupt after one season and left for Milwaukee, beginning play there in 1970. An ensuing lawsuit by Seattle forced MLB to promise an expansion franchise.

With time on their hands while they waited for the next MLB expansion, Seattle voters rejected a location near the current Seattle Center in 1970. The current site, on the edge of downtown, was approved in 1972. Thus, ground had not even been broken by the revised date that the facility was supposed to open! But further delays were to follow. By 1973, still unfinished, the revised opening date is pushed back to 1975. But the facility did not open until 1976. If one had believed the original debate, this is a six-year delay.

And there was also a substantial cost overrun. Remember, the original amount was \$40 million (\$213 million in today's dollars) in the election that passed in 1968. The final cost by 1976 had mounted to \$67 million (\$218 million in 1999 dollars; remember, economy-wide inflation was rampant at this time!). That is not the end of the cost story. Quirk and I analyze annual subsidies for a number of stadiums, circa 1989, using the following formula:³²

32. See PAY DIRT, *supra* note 6, at 154-172.

$$\text{Subsidy} = \text{Total Operating Revenue} - \text{Total Operating Cost} - \text{Depreciation} - \text{Opportunity Cost of Funds} - \text{Foregone Tax Revenue}$$

The results of this calculation are shown for the Kingdome and a few similar stadiums for comparison purposes in Table 6. Loss has declined as the dome has aged, and debt falls so that the opportunity cost of funds falls, but the estimate of the annual subsidy on the Kingdome was about \$11.4 million (\$17 million in 1999 dollars). Other multi-use stadiums of the time were also subsidized; and, more than the Kingdome. But \$17 million per year is a pretty healthy subsidy in anybody's book.

TABLE 6³³
ESTIMATES OF STADIUM SUBSIDIES

Facility	Net Operating Income	Depreciation	Opp. Cost	Property Tax	Subsidy 1989	Subsidy 1999
Superdome	-\$7,922	\$8,572	\$21,400	\$4,280	\$42,174	\$62,984
Astrodome	\$ 912	\$5,900	\$12,600	\$2,520	\$20,108	\$30,030
Riverfront	\$ 118	\$3,700	\$ 7,300	\$1,466	\$12,348	\$18,441
Kingdome	\$1,535	\$3,130	\$ 8,138	\$1,628	\$11,361	\$16,967

Disagreement over the amount to spend and location was rampant, the opening was off by six full years, it came in 68% over the balloted amount and still required a substantial annual subsidy as it neared its thirteenth birthday. Only Seattle citizens of the time can say for sure, but one naturally is skeptical that the economic activity, development value, and intangible value of Seattle sports teams were worth it.

Perhaps this is why the campaign for the Seahawk stadium painted the Kingdome as such a demon, rather than as an object lesson. Unfortunately, the actual debate surrounding stadium issues can be put to the public in terms that are very confusing. For example, a full-page newspaper advertisement that ran Monday, May 12, 1997 touted the wonders of Proposition 48, the Seahawk stadium issue.³⁴ The article was paid for and presumably formulated by "Our Team Works" (henceforth, OTW), the publicity organization in support of the stadium. On the Kingdome, we got the following:

Remember the day the Kingdome roof fell in?

The disaster left property taxpayers with a \$70 million hangover. This adds up to \$5 million per year in property tax debt for which our taxpayers receive no services. In fact, the Kingdome has cost

33. *Id.* at 170.

34. See SPOKANE SPOKESMAN-REV., May 12, 1997 at C4.

taxpayers more in the last 2.5 years for repairs than the original construction costs . . . and now \$42 million more is needed for basic repairs.

The good news? The funding package for the new stadium and exhibition center will retire all Kingdome debt, and free the property taxes for better purposes.³⁵

There are at least four problems with these statements. First, it is not kosher to compare \$70 million 1996 dollars to the \$67 million original construction cost in 1976. That \$67 million would be worth about \$187 million in 1996 dollars. This may just seem like an economist's peeve, but it changes the comparison considerably from over twice the original cost to less than half.

Second, the Kingdome was twenty years old by 1996. All buildings that age require upkeep in order to remain productive. And, without the building there would be no teams or other uses so services certainly *are* bought by maintenance and upkeep. The question is whether or not it is worth spending maintenance relative to the alternatives.

This is the classic used car problem. Suppose you have \$1,000.00 cash plus an existing used car worth \$1,000.00 to put toward a transportation upgrade. But the car breaks down, requiring repairs of \$1,000.00. Should you put \$1,000.00 into a car with market value \$1,000.00 upon repair? If your next best alternative is to buy a car costing \$1,700.00, but you only have \$1,000.00, then putting the \$1,000.00 into the broken down car clearly is rational. Just because the Kingdome had broken down a bit does not mean that fixing it was irrational.

Third, the remaining debt on the Kingdome does not magically disappear just because it is rolled over into the debt represented by Proposition 48 as the statements imply. To return to the used car analogy, suppose you trade in your current used car for a price less than you owe on it. The remainder just rolls over into the new contract! It did not go away, and it still has to be paid. The OTW folks must have had a few used car salespeople on staff.

Finally, tearing down the Kingdome makes the new stadium/exhibition center the only place that non-NFL activities can take place! It makes the Seahawks the only supplier in town of a facility for professional and amateur soccer, international soccer like the World Cup, trade shows, community festivals, and other entertainment events. The

35. *See id.*

danger, of course, is that prices will be higher without the competitive pressure offered by another facility, like the Kingdome.

VI. ELECTORAL POLITICS AND MARKET POWER

In addition to learning from history, are there analytical techniques that might provide insights into stadium outcomes? There are three components in the process:

- Owners are trying to capture *all* of the value that they produce, including spillovers;
- State and local politicians are pursuing reelection opportunities;
- Pro sports leagues are ever mindful of maintaining and wielding their market power.

Let us take these, seriatim.

First, as detailed in Section IV, owners do not capture spillover benefits—direct economic activity, development value, and other intangible values. They typically appeal to the political process to aid them in collecting these spillover benefits. And the tried and true collection mechanism is a new stadium primarily at public expense. The rewards are documented in Section III and come both from the “attendance-winning-revenue” connection and rearrangements in the new lease in favor of the team owner.

Subsidy seeking is a political endeavor, so any analytical explanation must incorporate the incentives confronting state and local politicians. Social scientists have been building the “logic of collective action” since the original works of James Buchanan, Gordon Tullock, and Mancur Olson in the middle 1950s and early 1960s. In a nutshell, as politicians pursue net voting gains among their reelection constituency, benefits are concentrated in the hands of the politically potent while costs are dispersed over the less politically potent. Whenever possible, in the bundle of choices politicians must make, if they can make benefits very obvious to politically potent constituency members, while spreading the costs in small amounts on others, then on net the resources necessary for successful reelection will be forthcoming. Some members of their constituency may be unhappy, but it is the net outcome that matters. Others are happy enough to provide support. And politicians have quite a few issues over which to apply this principle so that, on net, very few constituents actually end up angry.

In the case of public spending on stadiums, the principle of concentrated benefits and dispersed costs generates a couple of broad observations. Even when the people say no, if political margins dictate it, then

politicians will figure out how to provide the stadium subsidy anyway. The failure of the referendum for the Mariners ballpark is a perfect example. The margin of failure was quite small. Led by Slade Gorton and Gary Locke, politicians apparently figured out that they could irritate the politically less potent and help the politically potent. Presumably, funding the stadium in defiance of the referendum outcome enhanced their reelection chances, on net. The politically potent constituency included the vocal voting contingent of sports fans, plus powerful development interests and local downtown business interests. And the politically less potent, as always, are the general taxpayers of the state.

And, this last point leads to the second general observation based on the concentrated benefits and dispersed cost principle. Spreading the costs out in small doses over all taxpayers is a tried and true approach in nearly all political outcomes. The costs are always portrayed in terms of a few trips to fast service establishments, even though the cumulative amount is large. On any single issue, general taxpayers have much more pressing issues to worry about. And this strategy appears to have worked for the Mariners issue. (The logic fits in a much broader context by the way. I show that well over half of the stadium issues that have failed under direct democracy actually end up getting funded anyway. Typically, funding levels under the alternative arrangements for these issues occur at higher levels than specified by referendum.)³⁶

The final element that must be covered in an analytical explanation of stadium outcomes concerns the setting in which teams and local governments bargain. Here is where the market power of sports leagues comes into play. Since the *Federal Baseball* decision in 1922, MLB has been free to operate as a cartel.³⁷ Owners, acting as a league cartel, seek to maximize the monopoly return to the league itself. Then, under a process mutually agreeable to member owners, the members of the league distribute the returns of cartel management. One of the most important tools under their control is the careful management of team location. This control is exercised both through the control of team movement and expansion.

Examining the recent NFL expansion to Houston helps us to see how this league process ends up impacting stadium negotiations. The most

36. See Rodney Fort, *The Stadium Mess*, in *STEE-RIKE FOUR!: WHAT'S WRONG WITH THE BUSINESS OF BASEBALL?* 165 (Daniel R. Marburger ed., 1996); see also, Rodney Fort, *Direct Democracy and the Stadium Mess*, in *Sports, Jobs and Taxes: supra* note 25, at 146.

37. See *Federal Baseball Club of Baltimore v. National League of Prof'l Baseball Clubs*, 259 U.S. 200 (1922).

recent NFL expansion boiled down to a choice between Houston and Los Angeles this year. In general terms, the decision hinges on which potential location will contribute the most to the cartel league. The elements are the size of the expansion fee, the stadium situation, the contribution to the national TV contract, the potential for long-term viability (since stability generates the largest demand in a given area), and the management of location to the advantage of the league.

This last element forces the league into a trade off. On one hand, the league must not leave megalopolis markets open for long. To do so would invite the formation of a rival league. Every successful rival league has managed to establish a beachhead in megalopolis markets. On the other hand, it is valuable to keep some viable cities open so that existing team owners have some leverage in their negotiations with current host cities and states. Nothing tips the scales in favor of a stadium subsidy demand more than one or two very believable alternative locations.

Judging by the outcome, apparently Houston knocked the socks off of Los Angeles in the fee/stadium area and got the team. Even though Los Angeles probably has the larger contribution to TV, it is not as if nobody in either city is going to watch the NFL on TV if they do not have a team. In addition, Los Angeles also represents a terrific viable threat location for current owners involved in stadium negotiations. The down side, of course, is that Los Angeles also represents an attractive plum for anybody thinking about forming a rival league. On this last issue, we can only surmise that the viable threat value was the larger.

In setting the stage for stadium issues in pro sports, it is location management that looms large. Through the careful management of team locations, the league maintains credible alternative "threat locations" for existing teams. And teams play this threat location card in bold moves. The most famous would have to be called the "Tampa Bay/St. Petersburg Ploy." In succession, the owners of the White Sox, Mariners, and Giants all used that location as a threat against their host cities. In the meantime, Tampa Bay languished. Having spent a couple of hundred million on the Thunderdome, there was nothing they could do but wait while pro sports leagues held them in reserve as a viable threat location. In the examples in this paper the Mariners were touting a move to Washington D.C./Northern Virginia. The Seahawks were packed up and headed toward Hollywood. Such threats are a terrific advantage during stadium negotiations.

In a nutshell here is the setting. Owners are aware of the spillovers they produce. Since spillover benefits cannot be obtained through mar-

ket mechanisms, they seek non-market, political approaches to collecting them. State and local elected officials face politically potent stadium subsidy demanders. And, because of league market power, viable threat locations exist which give the upper hand to teams in their quest for a spot at the public trough.

The results are predictable, and exactly what we observe. Taj Mahal stadiums are constructed, primarily at public expense. And this occurs even if public sentiment is against it, as revealed by referendum. Further, these facilities require ongoing subsidies even for operations. This subsidy was on the order of \$17 million dollars per year for the Kingdome, and worse for other facilities in the nation. Team owners' pockets are lined in the process and powerful development and downtown business interests are satisfied. The rest of the state's taxpayers are placated with a few youth ballparks (also funded out of public money, by the way). So goes the political process in general and it would be naïve to think that anything else would happen for a particular political issue like sports stadiums.

VII. CONCLUSION AND SUGGESTIONS

In the state of Washington, over \$500 million has been spent on a MLB facility for the Mariners. Another \$500 million or so will be spent shortly on an NFL facility for the Seahawks. They have already begun tearing down the Kingdome, previous home to both teams. The MLB facility was rejected by the voters but funded anyway. The NFL facility was supported (barely) by referendum vote.

It is clear that new stadiums generate increased revenue for owners, through the attendance-winning-revenue connection and from rearrangements in stadium leases. But it is less clear that these two stadiums are worth it to the taxpayers, given the level of spending. On the benefit side, there is economic activity, development value, and other intangibles. But the sum of these would have to be very large indeed to cover the burden that is being put upon taxpayers. And the Kingdome stands as a history lesson in frustration, delay, cost overrun, and ongoing subsidized operations. But, instead of tempering the debate, this lesson actually was turned into a rallying point for stadium proponents— it is so horrible, it must be torn down!

To top it off, there is an analytical explanation that predicts just such outcomes. Owners seek to collect spillover benefits through the political process. State and local politicians face potent stadium subsidy demanders, including development interests and downtown business groups. The logic of collective action suggests that potent political groups will get

their way at the expense of the general taxpayer. And this prediction seems to fit stadium outcomes like a nice, comfortable, old sweater.

These types of conclusions naturally lead some to wonder how the stadium mess can be ameliorated. Most analysts cut straight to the chase and suggest a variety of different options. As with everything, there is always litigation. But, at least in recent episodes such as the recent Washington State Supreme Court decision regarding the funding of the new Seattle stadiums, this approach has met with limited success.³⁸

A variety of government interventions also have been suggested. There is outright government ownership. Quite a few minor league baseball teams, Canadian Football League teams, and the NFL Green Bay Packers are municipally owned. There is public utility type regulation. Andrew Zimbalist has called for the creation of a "Public Baseball Commission" that would review sports team choices from the public interest perspective.³⁹ *New York Times* columnist Charles Rhoden has called for a cabinet or sub-cabinet "Office of Competitive Sport."⁴⁰ Rhoden's suggestion is traditional regulation by administrative agency. Quirk and I have detailed the probable outcomes of an earlier antitrust-based proposal by Horowitz, Noll and Ross.⁴¹ A break up of the existing pro sports leagues, through a judicious use of antitrust, would inject economic competition into sports. With competition, all of the current evils in sports would be ameliorated, from high player salaries, to labor management hegemony, to the stadium mess. All of these prescriptions are intended to move power away from leagues toward fans and taxpayers.

And all of these remedies are aimed at the obvious culprit, namely, the market power of sports leagues. But the real problem with these suggestions is that they put the cart before the horse. If the current Taj Mahal syndrome is the result of elected officials obeying a careful calculus of extra political benefits and costs, then simply calling for them

38. See *Clean v. State*, 928 P.2d 1054 (Wash. 1996); *Brower v. State*, 969 P.2d 42 (Wash. 1998).

39. See ANDREW ZIMBALIST, *BASEBALL AND BILLIONS: A PROBING LOOK INSIDE THE BIG BUSINESS OF OUR NATIONAL PASTIME* (1992).

40. William C. Rhoden, *Let's Harness The Untamed Empire Of Sport: There Are No Uniform Rules, Codes Of Ethics Or National Standards*, THE SPORTING NEWS, Apr. 5, 1993 at 8.

41. See Rodney J. Fort & James Quirk, *Introducing a Competitive Economic Environment into Professional Sports*, in 2 ADVANCES IN THE ECONOMICS OF SPORTS (W. Hendricks ed., 1997); HARD BALL, *supra* note 4. See also, *Inquiry of Professional Sports: Hearings before the Select Comm. on Professional Sports*, 94th Cong. 133-134 (1976) [hereinafter *Hearings*] (statement of I. Horowitz); *Hearings* (statement of Roger Noll); Stephen Ross, *Monopoly Sports Leagues*, 73 MINN. L. REV. 643 (1989); Stephen F. Ross, *Break Up the Sports League Monopolies*, in *The Business of Professional Sports*, 152 (Paul D. Staudohar & James A. Mangan eds., 1991).

to change their mind is naïve at best. Actually, the political margins must change first. The current stadium mess already is the result of political considerations following from market power, and market power continues because government intervention has not been forthcoming.

What can alter this powerful status quo outcome? The answer, is that competing potent political groups must rise to do battle against the current sports juggernaut. A comparative example is the environmental movement that rose, slowly and painfully, to do battle with entrenched production interests. The main lesson from that episode is that there is a lot of work to be done by stadium mess opponents. There is an educational mission, a politically viable organization must be created, and then the battle must be fought in the political arena. In the absence of such an uprising, none of the possible "fixits" described above ever will come to pass. You simply cannot ask politicians to act against their own electoral interests and, right now, the margins favor stadium lovers.

We have seen hints of how such competing interests might make their way into the process in the past. My reading of the Cellar and Kefauver hearings on market power in sports suggests two things. Congress began to scrutinize MLB's antitrust status because the league was, successively, slow to fill the gap left in New York City when the Dodgers and Giants left and slow to expand beyond the Mississippi River. We also see hints of Congressional interest in antitrust scrutiny at expansion time. Congress investigates market power and representatives from potential expansion locations throw their weight around in hearings and hint at threats of intervention. And when politics threatens, MLB changes. They did expand back into New York (also because of the additional threat of Branch Rickey's rival Continental League), they did begin to expand beyond the Mississippi, and they did pay attention to Congressional pressure when they granted expansion teams.

Once the political environment is receptive, that is, when it pays in terms of votes and other vote generating resources, then we will see meaningful decisions about intervention into the stadium mess. In all likelihood, it will be standard regulatory agency intervention. That is what Congress likes best and the type of intervention that typically best serves the interests of members of Congress. But, whatever the chosen intervention, it will not happen until the political winds begin to blow against the sports stadium juggernaut.