STANDARD & POOR'S

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STADIUM FINANCING A LOSING GAME FOR MUNICIPALITIES

With Major League Baseball experiencing its eighth strike in the last 15 years, much attention has focused on its impact on the fans, and rightfully so. But while the players' union and the owners continue to discuss the issues of salary cap and arbitration, municipalities have been left out of the negotiating process, even though they too have a huge financial stake in the strike's quick resolution.

States and local governments, through tax breaks, subsidies, and the building of stadiums, have become de-facto partners with team owners and players. Some cities, such as Cleveland, Baltimore, and Arlington, Tex., have have made new sports stadiums the centerpieces of their urban renewal projects. Others, such as New York, are prepared to shell out up to $500 million to build new stadiums.

The fact that municipalities are powerless to do anything about the baseball strike naturally begs the larger question of why cities and states, many of which are hard-pressed to keep streets paved, schools open, and public transportation systems up-to-date, are subsidizing the multi-billion sports business in the first place.

FROM CIVIC PRIDE TO BIG BUSINESS

While cities have for many years built and managed the stadiums in which professional teams play, it is only in the last 10 years or so that their involvement in the sports industry has become a financial burden and a political issue. Before that, professional teams were content to play in stadiums that, by current standards, would be considered second-rate. Most stadiums were used for decades before being replaced. Ironically, the most popular new baseball stadiums were designed to be reminiscent of the old stadiums, most of which have been torn down in recent years.

For years, most owners of professional sports teams viewed their ownership as a civic duty or some sort of leisure-time activity. Many point to the relocation of baseball's Dodgers and Giants to California from New York in 1958 as the end of that era and the beginning of the era of sports as a big business.

However, the really big money did not begin to flow into professional sports until television got involved. Fees for broadcasting rights for professional sporting events, modest in the 1960s, skyrocketed in the 1970s and 1980s. Owners began to view franchises in terms of their revenue-generating potential, and civic-mindedness was quickly supplanted by the desire to maximize cash flow and profits.

Now, sports is a multi-billion-dollar industry, thanks to savvy marketing and television. With player payrolls totaling tens of millions of dollars for most baseball teams, owners believe they need big, modern stadiums with all the requisite revenue-generating features, including private luxury boxes, shops, and restaurants. Municipal governments, faced with intense competiton for a finite number of franchises, are desperate to keep teams and, in many instances, provide team owners with lucrative incentives to not relocate.

As a result, stadiums are being built all over the country, and the vast majority are being paid for by taxpayers, many of whom have no interest in professional sports and will never go to a game, especially given the ever-escalating price of attendance.

PUBLIC FUNDS FOR PRIVATE ENTERPRISE

Chicago is in the forefront of stadium building, and Jerry Reinsdorf, owner of the Chicago White Sox baseball team and Chicago Bulls National Basketball Association franchise, is the primary beneficiary. This began several years ago, when Mr. Reinsdorf threatened to move the White Sox to St. Petersburg, Fla., unless the state built him a new stadium. The Illinois legislature agreed, on the last day of its 1988 session, literally at the stroke of midnight, to fork over $150 million to build a new stadium, thereby averting the embarrassment of losing the team to Florida. This fall, Mr. Reinsdorf's Bulls—along with the National Hockey League's Blackhawks, unless there is an NHL strike—will be playing in a new arena featuring 216 luxury boxes priced at $55,000-$175,000 a year that will bring in about $24 million to both teams' coffers, all courtesy of the business-entertainment tax write-off. Though no public funds were used to build the arena, taxpayer money was used to construct and improve the surrounding infrastructure, such as access roads. Some would question the wisdom of providing these kinds of subsidies to an individual whose teams are valued at $282 million.

Other publicly financed stadiums or arenas that have opened in recent years include:

- Camden Yards, in Baltimore, built for the bargain price of $110 million;
- The Ball Park at Arlington, which cost close to $200 million;
- The San Jose Arena, for $145 million; and
- Skydome in Toronto, for $330 million.

The Province of Ontario, which built Skydome, was unable to handle the stadium's finances and sold it for a mere $111 million to a group of private investors, thereby sticking Ontario's taxpayers with a more than $200 million loss. Canadians seem to have a particularly hard time keeping the cost of stadiums down. The Province of Quebec is still paying for Montreal's Olympic Stadium, built in 1968, where the baseball Expos play.

IF YOU BUILD IT, WILL THEY COME?

At least those cities have tenants for their stadiums. St. Petersburg built a domed stadium on speculation, hoping to lure a baseball team from another city or be awarded an expansion franchise. The Sun Coast Dome, which opened in 1991 at a cost of $140 million, sits empty most of the year, except for an occasional rodeo or concert. Because the stadium does not have a regular tenant, its debt has risen to over $250 million, with debt service being paid by taxpayers.

New publicly financed stadiums or arenas are currently under construction in Boston, St. Louis, Atlanta, and Cleveland, while San Francisco and Washington, D.C., among others, are contemplating building new ones. In Washington, D.C., city council and business leaders have put forward a proposal to build a $150 million basketball/hockey arena in the downtown area. The public will pick up most of the tab, according to the plan, through an increased tax on alcohol. All this while the district is facing a huge budget deficit.

Wayne Huizenga, chairman of Blockbuster Entertainment Corp., owns the Florida Marlins basball team, the N.H.L.'s Florida Panthers, and the National Football League's Miami Dolphins. Despite his vast holdings, Mr. Huizenga would like Florida taxpayers to help him pay for a $1 billion sports and entertainment complex with two sports arenas that he plans to build between Miami and Ft. Lauderdale.

Occassionally though, taxpayers, when given the opportunity, will put their foot down. Such was the case in San Francisco and San Jose, where voters turned down ballot initiatives that would have provided money for the building of a new stadium for the San Francisco Giants. Jack Kent Cooke, owner of the NFL's Washington Redskins, had his lucrative deal with former Virginaia Gov. Douglas Wilder to build a new football stadium in northern Virginia scuttled because of opposition from local politicians and interests groups.

By and large, though, team owners have the upper hand. The threat to relocate is enough to move mountains—or at least build stadiums. The list of recent attempts at the sports equivalent of blackmail, or "grassmail," unfortunately does not end with owners such as Mr. Reinsdorf or George Steinbrenner of the New York Yankees. More often than not, city officials give in and the taxpayer loses.

Cleveland's Gateway Center is but one example. Built at a cost of $420 million, the project has cost the public more than $100 million over the original estimate of $275 million. Even when the public does not have anything to do with the building of an arena, it may be left holding the bag anyway. Minnesota agreed to a public buy-out of the debt-laden Target Center in Minneapolis, home of basketball's Timberwolves, to keep the team from moving to New Orleans.

NO-LOSE PROPOSITION FOR OWNERS

So while the public is footing the major part of the bill for building new stadiums, the owners are reaping most of the benefits, even as the value of their teams keeps going up. For example, the Phoenix Suns franchise, of the National Basketball Association, was valued at $58 million before it moved into a new publicly financed arena in 1991. With 87 luxury boxes generating $5.7 million in new revenues and an increased share of the arena's concession and parking receipts, the value of the team soared to $100 million. No wonder team owners are doing whatever it takes to get the public to build them new places of business.

Collectively, professional sports team owners have an estimated net worth of $32 billion (the average net worth of the 93 owners of professional sports franchises is $340 million), and their teams are valued at $11 billion, according to *Financial World* magazine. Many sports economists believe franchise values will continue to climb substantially over the next decade with the consolidation of media and entertainment companies and their voracious appetites for sports programming. Recent sales of professional sports franchises seem to bear this out. The Philadelphia Eagles were sold in May for $185 million, the highest figure ever paid for a NFL franchise. The old owner made a huge profit, having purchased the team for $65 million in 1986. Baltimore attorney Peter Angelos bought the Orioles, who play in the publicly financed Camden Yards, for $173 million, $67 million more than was previously paid for a major league franchise. Mr. Angelos apparently has deep pockets, as he offered $200 million to buy the NFL's Tampa Bay Buccaneers so he could move them to Baltimore.

Recognizing the public's increasing resistance to higher taxes, owners have been looking for more clever ways to pick the taxpayers' pocket. Public/private partnerships in which the "public" picks up a good part of the bill and, in most cases, shoulders most of the risks has become a popular method of financing new stadiums. Toronto's Skydome was paid for that way, and Cleveland and St. Louis are putting up multisport stadium complexes using the public/private venture model.

In the end, though, public investment in stadiums and arenas, tax breaks, and other subsidies would make sense if there were some benefit to be derived beyond being known as a "big league" city and if municipalities had the right to intervene in situations such as the current baseball strike or when a team threatens to move.

Naturally, all the economic impact studies done to support the building of stadiums exaggerate professional sports' impact on local economies. For the most part, professional teams employ hundreds, not thousands, of people, and the majority work only when the team is playing. In addition, most fan spending is done in the stadiums, not in the surrounding areas.

Team owners, who are more than happy to dip into the public till, naturally are reluctant to give up anything in return. Thus, public officials are powerless to do anything when a team moves or when a labor dispute interrupts a season and robs them of tax revenues as well as depriving their citizens of an important leisure-time activity.

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