

**The Case against Public Subsidies
for a New Florida Marlins Stadium**

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I. Professional Sports Facilities and the Public's Subsidy Explosion

There has been a decades-long spree of public spending on sports facilities in the United States. Since 1960 more than 90 new facilities have been built for teams in the four dominant professional sports—baseball, basketball, football, and hockey. Of the total stadium financing of \$17 billion over this period, more than two-thirds was provided by taxpayers (Keating 1999). During the same period, almost three dozen existing stadiums and arenas for the pro teams were renovated at a further cost of \$2.5 billion. Although taxpayers were more frugal in these cases and did not finance new facilities, they generously provided more than 90 percent of the total.

No one has escaped making some contribution to these subsidies. Even the unborn are potential contributors, since some stadium projects will need debt servicing for decades to come. With another 40-plus stadiums already under construction or planned for the next several years, the high level of public subsidies throughout the country appears certain to continue well into the 21st century. These stadiums will cost another \$12 billion, most of which will come from all of us. This great public effort is being undertaken for the benefit of fewer than 120 professional sports teams (the total of all pro teams in the four major sports). Rarely has so much been done by so many for so few.¹

Florida has been doing its part. Major league cities in the Sunshine State have been as ingenious as other towns across the country in developing professional sports, through direct and indirect subsidies for the pros. The Tampa-St. Petersburg area has taken a leading role in the public subvention of pro sports facilities, even going so far as to build a new stadium without having procured a team. Jacksonville renovated its stadium for the Jaguars and Orlando built a new arena for the Magic.

Southeast Florida, although not as quick to enter the subsidy game, has been coming on strong of late. Although the Marlins baseball team plays in its own park (one of only five teams in Major League Baseball [MLB] to do so),² in recent years the Heat got a new publicly subsidized arena, as did the Panthers. Now the Miami/Dade commissioners, faced with threats of the team's departure by Marlins owner John Henry, have once again opened the public treasury. The hopes of hometown Marlins fans depend on favorable votes by the state senate and house of representatives to further subsidize the Marlins. If these additional subsidies make it through the state legislature, the final hurdle is Governor Jeb Bush. Historically, both houses and the governor have acted in support of public subsidies for professional sports teams around the state. The numerous pro-Marlins lobbyists and their allies now in Tallahassee expect another successful outcome.

Citizens of Miami-Dade have already seen their local politicians vote to contribute more than \$100 million. Now Marlins owner Henry wants the state to come through with at least \$146 million in subsidies and would accept a lot more. Should these large

public subsidies be enacted into law? On the whole, are they worth the investment? For some interested parties, they are—for Henry and the Marlins, and probably for die-hard Marlins fans. But for the remaining Florida taxpayers who may also be contributing to the \$146 million, these subsidies seem a bad deal. Residents outside southeast Florida seem unlikely to benefit. What exactly would Florida's taxpayers be buying with their contributions? The deal seems unlikely to serve the best interests of Floridians and they ought to refuse it. Unfortunately, they may not get the chance to do so.

This *Backgrounder* explores the economic arguments for and against local and state subsidies for the new baseball park in Miami. Even if the legislature and governor proceed with the proposed public subsidization of the stadium, we should at least be clear about what we are doing, and what the likely economic consequences will be.

II. Sports Economics

Economists are attracted by large expenditures and revenues. As the number and cost of new and renovated professional sports facilities have exploded over the past few decades, a growing number of economists and public policy scholars have begun to analyze the quasi-market systems of the major-league sports. Three economic aspects of the four dominant professional sports leagues have most fascinated these scholars: the leagues' apparent monopoly structure³, the professional sports labor market, and the growing public investment in financing team facilities.⁴

III. The Monopoly Economics of Professional Sports

Even though Major League Baseball is exempted from traditional application of the antimonopoly laws, most economists would argue that it does enjoy some monopoly powers.⁵ The 28 teams act in concert to maintain their cartel. They act to restrict entry of new major-league teams, set rules of conduct that they all agree to follow, and meet regularly to discuss how to operate the cartel to ensure continued profitability. They even share revenues from one another's operations and collectively negotiate with broadcasters and others over the use of their games, actions not normally tolerated in a competitive market.⁶

What is the importance of MLB's monopoly power for our discussion of public subsidy of member teams? MLB artificially restricts the entry of new teams and creates an artificial scarcity of teams compared to the number of cities that would like to become (or remain) major-league communities. Formerly, MLB used its monopoly power against players, and successfully kept players' salaries lower than they otherwise would have been. In the last 30 years, as the power of players to extract larger salaries has improved,⁷ the league has turned its attention to public authorities as new sources of revenue, to help pay for these larger salaries and to help maintain profitability for the owners.⁸

While leaning on the public sector for generous financing, MLB teams have also diversified their types of revenue. In the last 40 years, broadcasting and cable rights have significantly increased total team revenues. More recently, concession fees and advertising rights (including stadium-naming rights) have also expanded team revenues. New stadium design has allowed teams to more efficiently segregate their customers. In the newer stadiums and arenas, a team's management is better able to divide fans into three or more economic classes. Most teams with new stadiums (1) rent special luxury boxes or suites at five- and six-figure season prices (often to corporations); (2) offer somewhat cheaper club seats for well-off, but not-quite-so-affluent spectators; and (3) provide a third class of seats and tickets for the least affluent fans.

All of these developments have reduced the size of market a baseball team needs to survive and prosper. More and smaller cities are now able to compete for major-league teams than was true in the past. Since many more cities can now dream of landing a major-league team, a monopoly sports league such as MLB can benefit from the growing number of cities and other governments that are able to bid against each other. With a smaller regional population (to which to sell tickets, to broadcast, and to advertise), the best bids are those guaranteeing a team the largest public subsidy. Owners are the beneficiaries, and since players can now extract some share of the team profits in increased salaries, players benefit too. Hence the artificially created scarcity in the number of major-league baseball teams has mainly served to benefit the teams (owners and players) at the expense of the public sector.⁹

IV. Public Investment in Professional Sports Teams

A second, more recently developed focus in the economic analyses of professional sports is the public subsidies provided to nearly all professional major-league teams in the United States and Canada. These subsidies exist because of the monopoly structure of each of the sports leagues. The leagues act in their own self-interest by maintaining a relative scarcity of teams. This allows individual teams to threaten their local political authorities with departure, or to tantalize cities without teams with the possibility of getting one. Metropolitan areas get into bidding wars for these scarce teams and they bid with subsidies.

Even though it is the monopolistic MLB that artificially creates team scarcity and other conditions to elicit government subsidies for baseball teams, it takes a willing government to complete the equation. Cities obviously desire these teams; otherwise they would not be willing to use their limited public resources to pressure teams to stay or to relocate. In effect, the cities are in competition with each other. Not every city that wants a professional team can have one. When nearly all cities are willing to bid for teams with public subsidies, no city ends up better off than any other. The only effect is that the cities as a group transfer wealth to the owners and players in MLB. If cities were simply private entities, there would be strong economic logic for them to come together and form their own countercartels. These city cartels could then prohibit spe-

cial payments by their members to the MLB teams or league. Currently this is politically impracticable and the prohibition would be difficult to enforce in any case.¹⁰ Without concerted collective action by the cities themselves, and without public local ownership, a final alternative would be the federal government's prohibition of all subsidies to professional sports teams.

Since nearly all cities subsidize their sports franchises, a city refusing to do so will almost certainly price itself out of the monopoly market. Nearly all cities choose to play the game, and we end up with a system of heavily subsidized professional sports. The harsh irony here is that we are subsidizing an already profitable business employing a relatively small number of gifted and extremely well-paid managers and athletes and controlled by an owner who is almost always one of the richest people in the country.¹¹

Clearly, sports have a special place in American culture and most cities of adequate size to support a professional team want to have one. They are willing to spend public funds to have a team, sometimes for the intangible benefits alone. Many stadium proponents argue that having a professional major-league team creates a positive image for the city and region. Many also believe that a major league-team helps attract new businesses and other important institutions that enrich city life. Widely distributed social and psychological benefits are associated with the linking of a major league team to the town. Certainly, many fans would feel a real loss from the departure of a team for another city or region.

Another explanation for the existence of large public subsidies is that direct economic benefits from a new stadium are concentrated among a small number of people who will gain a lot, while the costs are widely dispersed. This means that proponents of public subsidies have a strong economic motivation to work very long and hard to ensure that the subsidies are forthcoming, but opponents have less incentive to resist the subsidies. Not only players, managers, and owners benefit from subsidies. There may be other important winners in the subsidy game—these can be skilled and semiskilled construction workers, bond underwriters and lawyers, banks, real estate developers, adjacent landowners, and the local media that use sports reporting and discussions on local teams to attract local viewers or listeners.¹²

Stadium proponents argue that there are many additional rationales for subsidizing a stadium for a professional sports team. The arguments for subsidies include some of the traditional logic behind any public investment. Proponents of stadiums believe that the construction and operation of the facility will create new jobs and incomes. They claim that the stadium project will have many positive spillover benefits that support economic growth in general. The stadium will create a pole of economic development that will generate additional private investment. The stadium can even bring about the broad economic development of a whole area of the city or suburb in which it is to be located. It can halt and even reverse the leakage of population from central business districts to the suburban fringes of the metropolis. In disputes about the desirability of

public subsidies across the nation, these other reasons are usually brought to the fore as opposition to subsidies develops in the political sphere.

When the empirical reality of the effects of stadiums is closely examined, most of these claims evaporate. There appears to be little or no evidence for any net beneficial economic impact of public stadium financing. But this is often obscured because many coalitions supporting stadium subsidies have incorrectly analyzed the overall costs and benefits flowing from these public expenditures on sports facilities.

V. Evaluating the Costs and Benefits of Public Investments¹³

Performing a cost-benefit analysis of any private investment is less complicated than conducting an analysis of a public investment. A private business is normally interested in the financial costs and revenues due to a particular investment. The investor calculates the present discounted value¹⁴ of the costs and revenues connected to the investment project. Then the analyst compares the net return from the project with alternative projects (their net present discounted). Whichever investment among all realistic alternatives produces the greatest net revenue is the preferred choice.¹⁵ The main thing that makes analysis of a private investment easier than evaluation of a public investment is that the investor only has to be concerned about the private costs and benefits (revenues) that accrue to this particular private project, not about costs or risks that fall on others. Similarly, any benefits or revenues that go to others, which cannot be captured by the investor, are of no concern in the analysis. It is only the investor's private costs and benefits that matter, not the total social costs and benefits of all people affected by the investment.

Public investment evaluation has many similarities to evaluation of private investment, but there are some crucial differences and interrelated complexities. One issue is the possibility of interactive effects from the investment. One benefit, for example, may be the creation of a new job and the income that goes with it. This income is spent and may in turn create additional net economic activity and income. The sum of this entire chain of induced economic benefits is what economists refer to as the multiplier effect. Calculating the appropriate numerical multiplier to compute the aggregate effects caused by any initial expenditure is complicated and uncertain, and may vary across different activities and sectors of the economy.

The analyst must also decide on the appropriate area to consider—the relevant geographical or demographic unit to use. For example, if I am only concerned about my own city's citizens, then I should include costs and benefits that affect only them.

If my city can get nonresidents to pay most of the costs of a stadium, then these costs become irrelevant to my analysis. Residents of my own city may get most or all of the benefits while the costs are borne by others outside the city. Then, from the point of view of the city residents, the stadium subsidized by outsiders would need very few local benefits for me to evaluate the subsidy as an overall positive public investment.

In contrast, if I use the state as the demographic unit in the evaluation, then I should also include the costs and benefits for all the state's citizens. The Miami/Dade County Commission is going to the state government asking for special subsidies for the new Marlins stadium. The proponents of the stadium from Miami realize that these costs imposed on outsiders will no longer be costs for the city of Miami. For any public investment with mostly local benefits, it will be rational for local government to seek outside subsidies. We should expect every county to do the same as Miami/Dade and try to get subsidies paid for by outsiders. The project can be economically justified for local taxpayers, even if not for all citizens of the state. Similarly, it may also be perfectly justifiable for the state government to refuse to provide the subsidy for projects with only local benefits. When the costs and benefits for all citizens of the state are considered, the overall net result may be strongly negative.

Evaluators of a public investment must identify all social costs and benefits affecting citizens in the chosen demographic unit of analysis. Any public investment needs to be compared with all other feasible alternatives. The public investment analysis must consider this opportunity cost of the public investment. The net beneficial value of the stadium subsidy must be compared with net benefits of the best alternative. Public investments involve trade-offs and these possibilities need attention in the analysis. What could be done with the same money? What would be the net benefit from this alternative that we can no longer afford? When we subsidize a stadium construction, we must necessarily reduce funding of such programs as education, elder services, and other public amenities. This is true even when new taxes are assessed to pay for a specific public investment. Alternatives do matter in public investment cost-benefit analysis. All financial resources raised through governments are fungible and could be used for many different things, even if we call them "stadium taxes."

This social opportunity cost evaluation is further complicated by the general state of the economy. If there is a reasonably full employment of labor and other resources, then the opportunity cost of a public subsidy of a stadium is larger than in the case of an economy in which there are unemployed resources. Putting the unemployed to work may require few trade-offs, since we need not sacrifice any alternative activity. The social costs of employing the unemployed can be small or nonexistent, whereas moving an employed resource or person to another use (for example, building a new stadium) will have a real net social cost. In full employment, the economic justification of public investments normally requires more gross benefits from any project than during times of high unemployment.

One last point concerns taxes. If the public investment requires new taxes, then the evaluation must account for its distortionary consequences. Taxes create a reallocation of resources and expenditures (for instance, they reduce consumption of the taxed goods and services), and these changes may cause people paying taxes to incur a larger welfare loss than just the monetary value of the taxes themselves. Thus the costs of the public investment must be adjusted upwards by the impact of this distortion. It is important to be clear on the social costs and benefits related to taxes. Taxes

that simply shift income from some citizens to others need cause no real losses to society as a whole.¹⁶

Noll and Zimbalist (1997) argue that in only three circumstances can a public investment be beneficial for society as a whole. First, there are unemployed resources and public investment is able to make them more productive than would otherwise be the case. In the second case there is full employment, but, due to some imperfection, there is too little total investment. This could be due to poorly functioning private capital markets that inefficiently restrict access to borrowing, or to the inability of private investors to capture all the benefits of a particular investment. That is, there are positive externalities or positive net benefits to other individuals.¹⁷ In the third case, the publicly subsidized investment produces more benefits than any other alternative investment, even with full employment. In all cases, as with any real investment, public investment leads to greater consumption in the future, since making an investment now means we are able to consume less at present.¹⁸

VI. Stadiums and Public Subsidies as Economic Development Strategies

The most frequent reason given by proponents to justify large public subsidies for expensive new stadiums is that such expenditures are justified by positive economic benefits to the local economy. As a recent academic reader about sports in American society concludes, the pro-stadium subsidy arguments are as follows:

1. A stadium and a pro team create jobs and these employees will spend money locally and pay taxes.
2. Stadium construction infuses money into the local economy, which is spent over and over again as it circulates through the city and the sale of construction material generates tax revenues.
3. The team will attract other businesses to the city and also bring visitors from outside the area who will spend money in the city.
4. The team will attract regional and national media attention that will boost the tourist industry, enable local firms to sell their products outside the city, and contribute to overall regional economic development.¹⁹

Unfortunately for the advocates of public subsidization of new stadium construction, when economists, urban planners, and other public investment analysts actually try to measure these effects, they come up empty-handed. As Coakley concludes, “dozens of studies done by independent economists, both liberal and conservative, do not support these arguments.” He then summarizes his finding in surveying the results of these empirical studies:

1. Teams and stadiums do create jobs, but apart from the high-paying jobs held by players, stadium jobs are low paying and seasonal. . . . The vast majority of players' salaries are not spent in the cities where they play. . . .
2. Construction materials often are brought in from other locations, as are specialized construction workers. The companies that design and build stadiums are seldom local, and they spend their consulting dollars in other cities.
3. Stadiums do attract other businesses, but these are often restaurant and entertainment franchises with headquarters in other cities and often these franchised businesses drive longtime local operators out of business. Spectators do come from out of town, but the vast majority . . . live close enough that they do not spend the night in connection with attendance at a game, and they spend a limited amount of money on food and other forms of entertainment outside the stadium.
4. Stadiums and the teams that use them do generate public relations for the city and for tourism, but tourists who visit the city for other reasons may stay away when big sports events are in town or when games are scheduled. Regional development is limited because local people who spend money at and around the stadium have fewer dollars to spend in their own areas of the city. An inner-city stadium does great things for the area around the stadium, but it often hurts other businesses and discretionary income is limited in any population . . . and spending on season tickets . . . often means that one will spend less money on going out to dinner and to shows.²⁰

These negative conclusions about the economic development effects of public subsidies (or privately financed ones, for that matter) represent the overwhelming consensus of analysts who are not on the payroll of the professional sports teams. One of the first empirically comprehensive studies of the effects of stadiums by Robert Baade actually found that in seven of nine cities he studied, “. . . construction of a stadium in the city was followed by a reduction of the city's share in regional income.”²¹ Other work on business location decisions has shown that a stadium or team has little if any effect on business location choices. As the authors of a recent, highly praised volume on the economic effects of sports put it, “There is no systematic evidence that this assertion is true.”²²

The Noll and Zimbalist (1997) volume of papers by several specialists in economics and professional sports teams comes to an even more damaging conclusion: “The studies in this volume uniformly conclude that metropolitan and central city economic development is not likely to be affected by a sports team or facility” (p. 496). If this is reality, then how can the hired consultants of teams trying to influence politicians to vote for subsidies come to such diametrically opposite conclusions that show all sorts of economic benefits due to new stadiums? They engage, almost systematically, in miscalculating several benefits and costs and methodologically commit several errors that bias their results in their own (or their employers') favor. First, they “confuse new

spending with spending that is diverted from other local activities.” Second, they “attribute all spending by out of town visitors to the sports team regardless of the motive for the visit.” Third, “They overestimate the multiplier by ignoring crucial characteristics of sports spending.” Fourth, “They apply this inflated multiplier to gross spending, rather than local value added.” Fifth, “They omit the negative effects from the taxation that is used to finance construction and operating deficits of the facilities.” Sixth, when the studies try to go beyond seat-of-the-pants estimates and engage in basic cost-benefit analyses, the errors become even more serious. For example, “some assume that the site has zero opportunity cost or that a stadium does not impose additional security, infrastructural, or environmental costs on the city.”²³

The most recent, systematic, and in-depth study of the effects of sports facilities on urban redevelopment also reaches a pessimistic conclusion: there is little measurable impact, and some results are actually negative. “By themselves, sports teams are not economic engines; they have too few employees and involve too few direct dollars to be a driving force in any city or county’s economy.”²⁴

VII. Public Subsidies for Profitable Sports Businesses and Their Stadiums

The costs of financing the construction of a stadium include the current initial costs plus the present discounted value of the operating costs during the life of the stadium. If there is full employment in the economy, then the total financial costs of the project will be approximately equal to true economic costs. These true economic costs include the value of the foregone production and consumption because of the reallocation of some workers and other resources—from their previous uses to creating the stadium.²⁵

The benefits of the public subsidy to the stadium are more complex to evaluate and can only be perfectly accurate through the use of certain theoretically and practically relevant assumptions.²⁶

An appropriate cost-benefit analysis of a professional sports team with a publicly subsidized stadium could be summarized by the following equation:

$$\begin{aligned}
 \text{Net benefits} = & \\
 & \text{(consumption value of team to the fans . . . which is the sum of ticket} \\
 & \text{purchases, broadcast rights, and estimated positive externalities of fans in} \\
 & \text{the region)} \\
 & - [\text{minus}] \text{ (annual cost of stadium + team operating cost)} \\
 & - [\text{minus}] \text{ (environmental degradation + congestion + public safety costs)} \\
 & + [\text{plus}] \text{ (net increase in local income x multiplier)}
 \end{aligned}$$

Many economists and other policy analysts also make a very strong case that the expensive new stadiums or arenas are rarely viable as private investments.²⁷ If the financial arrangements of creating a new stadium must cover both increased financial profitability of the team as well as all the financial costs of building the stadium, a nearly impossible quandary is created. On their own, teams are not investing in new stadiums. As private businesses they are more sensible. The additional revenue a team receives from a new stadium cannot cover both additional profits for the team and the costs of the stadium. Hence, private businesses are motivated to look for others to cover the costs, enabling them to capture more profits. Individual teams cannot afford to build the expensive new stadiums and simultaneously pay off the debt incurred in construction of the facility. In their financial analysis, there are two circumstances that might allow a team to finance a facility on its own. A dual-purpose (two-team) stadium might be able to pay for itself.²⁸ Alternately, an expansion team would have no opportunity costs of lost revenue (income from an old stadium) to compare with the additional revenue from a new stadium. However, this new team would need an annual net operating revenue of some \$20 to \$30 million to pay off the construction financing costs of the new facility, and obtaining this level of revenue is relatively unlikely.²⁹

VIII. Conclusion

Several points are worth recalling from the preceding discussion:

1. Local governments are massively subsidizing professional sports teams indirectly, mainly through subsidies to new stadium construction.
2. New stadiums allow teams to significantly increase their revenues, particularly by seating spectators according to economic class in the new facilities.
3. All the dominant major-league sports are characterized by a monopolistic cartel arrangement. The cartels create an artificial scarcity of teams and increase the teams' bargaining power in negotiating for subsidies from their local governments.
4. The net economic development or even the net economic spillover benefits of having a major-league team in a city appear to be miniscule at best.
5. Construction of an expensive new stadium is rarely a profitable opportunity for sports teams. The vast majority of the new stadiums are publicly subsidized.
6. The main social economic benefit of having a major-league team in a given locale appears to be for fans who rarely attend games but who enjoy following the team in the news and on free TV. These fans capture the main positive externalities created by the team's presence in the metropolis.

7. Fans who do attend games or watch the team on pay or cable TV pay for their benefits (ticket sales and concession stand purchases; costs of cable subscriptions or watching televised advertisements).
8. There have been almost no attempts made to measure the negative externalities of professional sports.
9. Coalitions of advocates of increased subsidies for teams develop in each city with a team. They are mainly beneficiaries of the public largesse toward teams. Among them are: (a) owners, players, and other employees and consultants/lobbyists hired by the team; (b) politicians who are either avid sports fans, or receive economic perks because of the team's presence, or may be influenced by potential voting behavior based on subsidizing the team; (c) avid fans of the team; and (d) other economic beneficiaries of the team's presence or from stadium construction projects.
10. The proposals and studies created by members or consultants of pro-subsidy groups are often methodologically flawed and biased.
11. Opposition to the pro-subsidy coalition tends to be disorganized and ad hoc, largely because few individuals suffer severe economic losses due to the team or the subsidies.
12. The main losers in this system of heavy public subsidies for professional sports are all the other citizens who (a) contribute through taxes to the subsidies, (b) relinquish actual or potential social services, public goods, amenities, or other benefits because of the subsidies, or (c) suffer the negative external effects of the team/stadium such as congestion or community displacement during construction of the stadium. Citizens in any of these categories who also have little interest in or affection for the teams suffer most.
13. Subsidy advocates usually take the subsidy proposals to both local and higher levels of government. Subsidies from higher levels of government tend to impose even lower per capita costs on citizens outside the town where the team is located; hence organizing an active opposition may be even more difficult.
14. Florida cities with professional teams follow the national pattern for pro sports teams and the public subsidies they receive and demand.

The Marlins and Miami, the State, and the Feds

Professional sports teams in Florida are no different than teams elsewhere. They would like to be richer if they could convince governments to help increase their wealth.

The Marlins want an expensive new stadium in the downtown area. At first they wanted to use the last undeveloped piece of land facing the bay. Since the recent Miami/Dade commissioners' vote, the team has accepted that the stadium will be built on the Miami River. The Marlins expect to be publicly subsidized. Team owner Henry originally said he would build any new stadium himself with financing from the private sector. After purchasing the team, he quickly changed his mind, saying he would be willing to pay 20 percent of the cost of the stadium if the estimated total did not include land acquisition. His contribution could be as little as nothing, if one factors in the increased revenues and increased value of the team with a new stadium.

The Miami/Dade County government has voted to give the Marlins more than \$100 million to help build the stadium. Now the Marlins and Miami/Dade County government all hope that the state legislature will impose costs on every citizen in the state to help pay for the new stadium. These state subsidies would be approximately \$150 million. The local government would be the legal owner of the stadium and hold the basic liability on the stadium and its creditors. It appears that the county and state would be responsible for any cost overruns.

If, through the cleverness of the pro-stadium coalition and its allies, it is possible to issue tax-exempt bonds for much or all of the debt from the construction project, the federal government will also be subsidizing the project. Every taxpayer in America will then be a contributor.

Appendix

Arbitrary Listing of Costs and Benefits (Financial and Economic Values) for the Proposed Florida Marlins' Stadium³⁰

The following section describes and partially evaluates the current proposal for local and state subsidies for the Miami Marlins MLB organization.

Caveat lector. Since there is no master plan or clearly identified, detailed proposal (at least to this author's knowledge), this evaluation of potential costs and benefits is only a sketch and is inconsistent with good practices in cost-benefit analysis. The listing that follows is meant to comprehensively identify possible costs and benefits based on press reports; however, it does not distinguish the division of responsibilities of the private party (Marlins) or of the governments involved. Nor does it try to determine the costs consistently (that is, costs and benefits are listed arbitrarily, neither on an annualized basis nor in present discounted value terms over some arbitrary time horizon).

Construction Costs for the Miami Riverfront Domed Stadium Option

Initial Costs (capacity 40,000+)

1. Cost of land (estimate of \$45 million³¹)
 2. Construction (estimates of \$385 million to \$521 million)
 - Additional costs due to the small size of the plot: unknown
 - Additional costs due to environmental cleanup of site: unknown
 - Possible add-in to design, Metrorail station: unknown
 - Possible add-in to design, river walkways: unknown
 - Moving utilities from riverfront site: unknown
- = Total up-front costs above: \$400 to \$500 million³²

Revenues to Pay for (or Pledged toward) Stadium Construction Costs

- A. **County:** Convention Development Tax (Hotel Lodgings Tax): \$118 million³³

Current revenues from this same tax estimated at \$30 million/year, with tax revenues previously committed to Miami Arena and Performing Arts Center still being paid.

B. State:

1. Sales tax rebate on stadium sales (tickets and concessions, etc.): \$122 million (Rebate [to team] from state on tax revenues from ticket sales, concession sales, and the like at stadium for 20 years and estimated at \$6 million per year. ³⁴)
2. Surcharge on parking fees at or near stadium: \$26 million
 - Currently this surcharge exists until 2004; extension for 40 years would raise an estimated \$2 million per year.
 - City of Miami currently receives \$13 million per year from this surcharge, according to city officials, and an extension could eventually raise much more. This tax was originally imposed to help solve the fiscal crisis in 1999³⁵

C. Owner's Contribution of Marlins: estimate of \$77 to \$100 million³⁶

= Total financing for construction: \$343 million to \$366 million

Ongoing Costs from Construction

Debt service and amortization: author's estimate \$25 to \$53 million per year over 20+ years³⁷

Operating Costs

- Security, police
- Maintenance and periodic minor rehabilitation
- Insurance
- Day of game or event expenses

Ongoing Benefits from Construction

- Greater wealth (enhanced value) of the Marlins team
- Larger salaries for Marlins players
- Incremental increases in employment for the Marlins or the stadium
- Property value increases in some properties near the stadium
- Benefits to fans attending games
- Benefits to fans who watch TV sports
- Benefits to fans who do not attend games but who get pleasure from having a local pro team
- Additional incremental income to the team's city or the state due to the stadium

- Incremental value of concessions, advertising, naming rights for the team or governments (depends on division of rights in the new stadium)

Ongoing Nonmarket Costs Produced by the Team and New Stadium

- Congestion
- Negative public safety effects
- Reduced property values for some properties
- Reduced value of Joe Robbie/Pro Player Stadium (current home of the Marlins)
- Distraction of public officials from more desirable activities
- Negative effects from increased public indebtedness; project's risk level
- Reduced government ability to engage in publicly worthy projects
- Greater difficulty for other pro teams in Florida to tap future state budgets.

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Endnotes

¹ Keating (1999) provides a comprehensive listing of the facilities built during most of the 20th century. Siegfried and Zimbalist (2000) also review the figures, based on Keating's data with all monetary totals calculated in constant 1997 dollars. All of these figures in the text are in 1997 dollars.

² Although the claim is frequently made that Pro Player Stadium (home of the Miami Dolphins football team and the Florida Marlins baseball team, and originally called Joe Robbie Stadium before Fruit-of-the-Loom bought the rights to name it after a line of clothing) was privately financed, public subsidies helped create the facility. The original borrowed funds for the project were borrowed through county-backed bonds. Also, in 1991, the state granted a \$2 million a year tax rebate for 30 years so that the then owner, Wayne Huizenga could afford to modify it for baseball use. The county also spent \$30 million in road and utility improvements to serve the stadium (Keating 1999, p. 2).

³ These four are: Major League Baseball (MLB), the National Football League, the National Basketball Association, and the National Hockey League.

⁴ The labor market of players (labor economics of pay, performance, contracts) is a third issue that has gotten a great deal of attention. I do not address it here since the focus of the paper is public investment-subsidy in sports facilities. These labor economists benefit from collection of detailed statistics on teams and players. In most industries it is difficult to get the same quality of highly disaggregated data. See Kahn (2000) for an example of the benefits to labor economists of the natural "laboratory" in sports labor markets.

⁵ Baseball is a special case since it was exempted from the Sherman Antitrust Act (of 1890) by a Supreme Court decision in 1922 (*Federal Baseball Club of Baltimore, Inc. v. National League of Professional Baseball Clubs*) confirming a lower court decision. This peculiar exemption of our national pastime was confirmed in 1953 and again in 1972 in the (*Curt Flood*) case. These cases ratified the reserve clause in player contracts by which a team owned a player's services unless he was sold, unlike the situation in most labor markets. The decisions also implicitly permitted teams to collaborate with each other in strengthening the league and its effective monopoly in major-league baseball, as well as the team's control over the minor-league system. The judicial reasoning allowing special treatment for baseball (and *de facto* for the other three major sports) is, at present, based on the idea that MLB is like a joint venture of enterprises that deliver a joint product (baseball "exhibitions") and that compete in the market for entertainment goods and services. Hence, MLB is considered a competitor with such enterprises as movie theaters, theme parks, and beach concerts. As such, MLB does not do any of the harm of a traditional monopolist, since there are so many other competitors in its "defined market." Moreover, this special treatment of baseball rubs off on the other major league sports as well.

⁶ Revenue sharing makes economic sense as the teams remain relatively equal in competitive quality. By sharing revenues the teams are able to jointly maximize total league net revenue over time. Another interesting result of this reasoning is that if players had complete freedom as subcontractors, there would be little change in the overall league net revenues. The only change (under traditional assumptions of self-interested, income-maximizing behavior by both players and owners) would be in the distribution of the value added (gross revenue minus all nonlabor and noncapital/owner returns). Complete free agency (no restrictions on player mobility among teams immediately on contract expiration) would result in players capturing most of the monopoly's benefits, with owners getting only a normal market rate of return on their investments. In a way, this occurred in the years after the baseball players union won the right of free agency (after only one year under the reserve clause holding players to their teams) in 1976. Following this victory, baseball salaries exploded (Kahn 2000, pp. 80-81). Also see Quirk and Fort (1992, pp. 240-93) and Fort and Quirk (1995) for extensive discussion of the logic and problems of maintaining competitive balance within the league cartels.

⁷Zimbalist (1992), pp. 1-27 on the evolution of players' power and union; and pp.75-104, on pay and performance. Staudahar (1996) pp. 14-56 covers labor relations in baseball; also Jennings (1997) emphasizes more recent labor relations issues.

⁸Although public subsidies had occasionally been used before, MLB owners began to learn the extent of their bargaining power with cities in the 1950s with the move of the Braves to Milwaukee's publicly funded stadium, as well as through the incentives given to produce the more famous moves by the New York Giants and Brooklyn Dodgers to California in 1956-57. With more moves through the early 1970s, owners learned that it was not necessary for a team to leave a city to gain subsidies. Simply threatening to move would usually open the public coffers for subsidies for stadium improvements or construction. By 1988, the Tampa Bay stadium construction project was used by Chicago White Sox owner Jerry Reinsdorf (who owned the Bulls basketball) to extract greater subsidies from the local government thus eliminating the need to move the team to get publicly funded facilities. The stadium later remained empty for several years. See *inter alia*, Keating (1999 pp. 4-6), and many others in the bibliography regarding this turn to a more self-aware ownership group, ready and willing to use the artificial scarcity of major-league baseball teams to extract these benefits from the general public.

⁹ Reforms that would make it easier and less costly for new teams to join the league would tend to reduce the need to subsidize teams, and also the monopoly incomes accruing to the owners and players. There are many diverse proposed reforms in the literature on monopoly leagues, governments, and public subsidies. For example see, Noll and Zimbalist, eds. (1997, pp. 498-507), Rosentraub (1997, pp. 462-78), Fort and Quirk (1995, pp.1296-97). Many other types of reforms have been proposed to address the desires of fans, players' rights, cities' need to avoid being held hostage to team owners, and other topics. See, among others, Lupica (1996, p. 210), Cagan and DeMause (1998, pp. 185-200), Zimbalist (1992, pp. 167-86), Sullivan (1992, pp. 207-220), Euchner (1993, pp. 179-84), Markham and Teplitz (1981, pp. 99-115), Noll, ed. (1974, pp. 411-28). None of the authors surveyed by this writer is very optimistic about the prospects for any significant reform. Given the publication dates for some of these proposals, their pessimism seems justified.

¹⁰ A economic cartel—at least, one made up of self-interested entities—trying to orchestrate the behavior of all its members will always have the problem of enforcement. An individual member can gain advantage by cheating while the other members follow the cartel rules. The enforcement problem is also present in the league cartel. We regularly observe incomplete adherence to the rules by individual teams or owners within the professional sports leagues. This is one plausible reason for the rule in MLB that requires every team to be majority owned by a single owner who can be more easily identified and disciplined when deviating from the rules. The rule is not simply due to private business antipathy to public ownership, although this ideology also plays a part. When McDonald's founder Ray Kroc died, his widow, Joan Kroc, decided (entirely benevolently, it appears) to give the San Diego Padres to the city and to throw in an additional \$100 million trust fund so the city could operate it. The owners' committee of MLB refused to even consider the suggestion, partially because the account books of a privately held team would reveal things better concealed from all other cities with teams (Cagan and DeMause 1998, pp.193-95).

¹¹ In 1998, a family income of \$145,200 would put it into the top 5 percent of U.S. families. The vast majority of professional athletes in the major leagues of dominant sports would be well above this income level. Of course, the career of an athlete is relatively short (*Statistical Abstract of the United States 2000*, table 745, p. 471.)

¹² Rosentraub (1997, pp. 69-71) argues that these beneficiaries are likely to be very active in promoting the subsidization plan in political debates. Often they come together to form what he calls a growth coalition, which will cooperate in ensuring passage of the necessary political acts for the stadium to be publicly financed.

¹³ This and the following section parallel the arguments in Noll and Zimbalist (1997, chapters 1-4).

¹⁴ This involves discounting the immediate and ongoing expenditures and revenues to take account of inflation and the time value of money. There are two main problems here. One is to choose the appropriate rate of discount. This is often done using a proxy, such as the interest rate on medium- or long-term low-risk assets (often government-guaranteed bonds). The other problem is to accurately forecast the incremental revenue due to the investment. There is no one way to do this, since the appropriate forecasting methods may be related to the nature of the investment.

¹⁵ This assumes that all alternative investments involve the same present discounted cost and the same level of risk. Then the greatest net return is the relevant decision criterion. Otherwise, one can use the rate of return on whatever assets one puts at risk in the investment. Also, if one is using one's own money, then the implicit "opportunity cost" of using the capital needs to be added to the costs. This is the foregone lowest risk net return one could earn by investing in secure assets. It recognizes the real costs of capital. When one borrows capital to invest, these costs become explicit in the financial costs of the debt incurred.

¹⁶ Noll and Zimbalist (1997, pp. 60-63), suggest a likely value of 1.25 for this tax distortion effect. This indicates that 1.00 is the tax itself and the remaining 0.25 is the sum of the compliance costs along with the so-called dead-weight loss from reduction in consumption of the taxed goods. Hence, each \$1 of direct tax cost leads to an actual welfare cost to those taxed of \$1.25. For the whole society, the net welfare loss is only \$0.25, since taxes end up increasing government expenditures and welfare improvements. As Noll and Zimbalist point out, the net cost of a tax to society, considered as a whole (without any distortion effects) would be zero since taxes simply involve a transfer of income or wealth from some people to other people. From taxes and transfers alone, society has a different distribution of income or wealth, but there is no economic foundation for claiming that society is worse off (or better off).

¹⁷ In the case of stadiums, these positive externalities can be viewed as all of the enjoyment or welfare effects that people (who may not ever attend a game in person) get from having a pro sports team in their city or region. If building a new stadium is a necessary condition for having a team, then failure to build one would lead all of these positive externalities to evaporate. If the team would stay put even without a new stadium, then there would be fewer of these positive externalities or even none, since they do not depend on creation of a new stadium.

¹⁸ This is an important point for stadium proponents to address. A new stadium investment must generate a net increase in consumption for society in the future. It cannot simply replace one type of consumption at present (for example, attending games in an existing stadium, plus the value of other consumption) with an equally valued consumption in the future (for example, attending games in a new stadium minus the consumption that is lost by building the stadium).

¹⁹ The reader lists only one other reason given by stadium-subsidy supporters, the positive psychic and social benefits, pride, social solidarity (Coakley 1998, p. 343-44). As Noll and Zimbalist (1997) note, this is arguably the most significant economic reason to justify large-scale public subsidies. Unfortunately for the proponents, these benefits do not operate through the market. But assuming that a third of the adult males in a medium-sized major-league metropolitan region (population 2.5 million) were willing to pay \$20 each, then the total of these benefits (positive externalities, in economics jargon) would be worth about \$6 million per year. Hired consultants for the pro-stadium interests are wise to include these estimated benefits of keeping the team in town. In reply, their anti-subsidy opponents would also be wise to estimate the negative externalities of a new stadium or the presence of a pro team in town: "A pro sports team may make some people feel better, but the macho orientations that accompany the games of most men's pro teams actually may make some people feel uncomfortable. Also, when teams have losing records or lose big games, there is evidence that fans do not feel better about their lives" (Coakley 1998, p. 345).

²⁰ Coakely (1998, pp. 344-45). He also makes the point that the most important cost in stadium project evaluation is the opportunity cost: "But the question is whether the public good might be better served if the money were spent on something other than a stadium used by wealthy owners and players to further increase their already sizable assets" (p. 345).

²¹ Baade's work on this study and others is widely cited, in part since the conclusions were so controversial. This discussion is from Quirk and Fort (1992, pp. 175-76). When Quirk and Fort (p. 176) looked at other studies, they found that "attempts to measure the actual expenditures benefits associated with teams or stadiums have generally come up with comparable results [to Baade's]."

²² Noll and Zimbalist (1997, p. 73). This book, along with that of Rosentraub (1997) and other more recent academic papers in scholarly journals, all come to the same conclusion. Location decisions by business are dominated by several other factors, which have more profound effects on the profitability and growth of the businesses making decisions. This is not to say that there is absolutely no impact on individual corporate decisions, only that no one has been able to measure any general effect of pro sports in a town.

²³ Noll and Zimbalist (1997, pp. 496-97). In this summary chapter the authors further assert that, under the right conditions, the location of a team or stadium may produce some “modest economic benefit.” However, the conditions they say are necessary—(1) that the new stadium is the central element of a carefully designed plan involving synergies with local businesses, and (2) that the terms of the lease are not negotiated quickly or under duress, and are fair to the city—“rarely apply to monopoly sports leagues” (p. 498).

²⁴ Rosentraub (1997, p. 176). Rosentraub studied the issue of sports, facilities, and urban development for 25 years as a professor of public policy in Indianapolis. His examination of urban strategies in Indianapolis, Cleveland, St. Louis, and Canadian cities is worth reading for anyone interested in urban problems and strategies to revive our central cities’ economies. He chose the case studies in part because these cities developed comprehensive, long-term policies dominated by the construction of major sports facilities in downtown areas. Even when the plans are holistic, integrated, and well formulated in advance of implementation, the minimal measurable effects are disappointing. Rosentraub’s overall conclusions on “sports and a city’s economy” (pp. 176-178) should humble anyone who appears in a public forum and makes great claims for the economic effects of a team or a sports facility. He does note, that the arrival of a major new team in a town without one leads to some net new economic activity, but with a value of only \$10 to \$15 million (p. 178).

²⁵ This assumes that the evaluation has accurately identified and calculated the opportunity costs according to the employment situation of the economy, and also included the appropriate cost value for the tax distortion effect.

²⁶ This is true of any evaluation of the welfare effects of reallocation of resources under full employment.

²⁷ Besides Noll and Zimbalist, see Quirk and Fort (1992, p. 175), “. . .most existing publicly owned stadiums and arenas do not cover their fixed and variable costs.”

²⁸ Noll and Zimbalist (1997, pp. 28ff) argue that the two teams might have to be basketball and hockey since in these leagues there is no revenue sharing across the league. The teams could retain the additional revenue from the new stadium for themselves (for profits and paying stadium costs), and rent out the arena to other events to supplement their income from games.

²⁹ A typical MLB team garners some \$65 million in annual gross revenues. A competitive team (ensuring good attendance and other revenues) is likely to pay more than \$35 million in salaries, leaving a net of \$30 million, but before any operating costs beyond salaries are paid (Noll and Zimbalist, 1997, pp. 56ff).

³⁰ Cost and revenue estimates are taken from recent Florida newspaper reports (*Miami Herald*, *South Florida Sun-Sentinel*, *Miami Business Daily*, *Sarasota Herald-Tribune*). At this time, the costs are highly uncertain, in part since the location for the new stadium has only recently been selected.

³¹ Miami/Dade Commissioner Winton, a real estate developer, declared that this estimated price was much too high for the parcel chosen by the Miami/Dade commissioners. He did not provide an alternative estimate.

³² The \$385 million figure was the estimate for the park at Biscayne Centennial Park. The land there was public and no cost of it was included. The only estimate in newspaper stories about the new park located at the Miami River was \$521 million and implied that the land purchase was extra. If so, the total could be as much as \$521million + \$45 million = \$566 million.

³³ Miami/Dade County commissioners voted 10-1 to support this (Bosquet and Lynch, 2001).

³⁴ Bosquet and Lynch (2001). State Rep. Mario Diaz-Balart is House sponsor of the bill for rebate. Sen. Villalobos of Miami (and majority whip) and sponsor of the Senate bill, orally on 3/22/01 proposed that the state should be paid the same amount as before from the Pro Player stadium. Only the amount net of this commitment would go to the team and hence toward the new stadium. He did not know how much the tax netted now and provided no details on his alternative.

³⁵ Rabin (2001). The claim was made in the article that the surcharge (if extended) would be able to eventually generate \$1 billion. Assuming a constant rate of \$13 million per year, this sum would require some 75 years of collections.

³⁶ John Henry promised to contribute 20 percent of costs (based on an old estimate of the total cost of \$385 m).

³⁷ The cost of servicing the debt would depend on the term length of any loans, its structuring, and the borrowing rate at which the financing bonds were issued. This borrowing rate cost would vary depending on both the guaranteeing body and/or collateral (for example, government, private, the stadium itself) and the relative share of tax-exempt vs. non-tax-exempt bonds.

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