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If You Build It, They Might Not Come: The Risky Economics of Sports Stadiums

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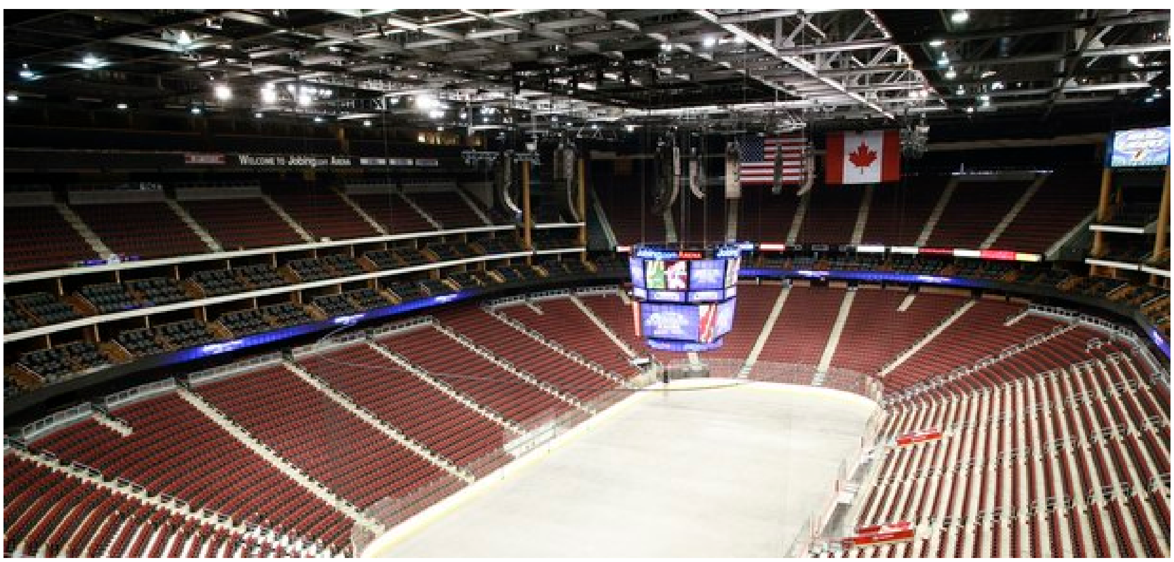
The trials of the Phoenix Coyotes, the least popular hockey team in the NHL, offer a lesson in public debt and defeat



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In June, the city council of Glendale, Arizona, decided to spend $324 million on the Phoenix Coyotes, an ice hockey team that plays in Glendale's Jobing.com Arena.

The team has been owned by the league itself since its former owner, Jerry Moyes, declared bankruptcy in 2009. For each of the past two seasons, Glendale has paid $25 million to the league to manage the Coyotes, even as the city faced millions of dollars in budget deficits. Now, Greg Jamison, who is also part of the organization that owns the NHL's San Jose Sharks, is making a bid for the team, and would therefore be the beneficiary of the subsidies.

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To put the deal in perspective, Glendale's budget gap for 2012 is about $35 million. As the city voted to give a future Coyotes owner hundreds of millions of taxpayer dollars, it laid off 49 public workers, and even considered putting its city hall and police station up as collateral to obtain a loan, according to the Arizona Republic. (The latter plan was ultimately scrapped.)

Overall, Glendale is not only on the hook for $15 million per year over two decades to a potential Coyotes owner, but also a $12 million annual debt payment for construction of its arena. In return, according to the Republic, the city receives a measly "$2.2 million in annual rent payments, ticket surcharges, sales taxes and other fees." Even if the Coyotes were to dominate the league like no other in recent memory and return to the Stanley Cup Finals year after year, the city would still lose $9 million annually.

This is an altogether too common problem in professional sports. Across the country, franchises are able to extract taxpayer funding to build and maintain private facilities, promising huge returns for the public in the form of economic development.

For instance, just three of the NFL's 31 stadiums were originally built without public funds. In two of those cases, public funding was later used to upgrade the stadium or surrounding facilities, even as all 32 of the NFL's teams ranked among Forbes' 50 most valuable sporting franchises in the world in 2012. (Only MetLife Stadium, shared by the New York Jets and New York Giants, received no public funding.)

Time after time, politicians wary of letting a local franchise relocate -- as the NBA's Seattle Supersonics did, to Oklahoma City before the 2008-2009 season -- approve public funds, selling the stadiums as public works projects that will boost the local economy and provide a windfall of growth.

However, according to leading sports economists, stadiums and arenas rarely bring about the promised prosperity, and instead leave cities and states mired in debt that they can't pay back before the franchise comes calling for more.

"The basic idea is that sports stadiums typically aren't a good tool for economic development," said Victor Matheson, an economist at Holy Cross who has studied the economic impact of stadium construction for decades. When cities cite studies (often produced by parties with an interest in building the stadium) touting the impact of such projects, there is a simple rule for determining the actual return on investment, Matheson said: "Take whatever number the sports promoter says, take it and move the decimal one place to the left. Divide it by ten, and that's a pretty good estimate of the actual economic impact."

Others agree. While "it is inarguable that within a few blocks you'll have an effect," the results are questionable for metro areas as a whole, Stefan Szymanski, a sports economist at the University of Michigan, said.

PUBLIC MONEY BALL

There are numerous reasons for the muted economic effects. The biggest is that arenas often sit empty for a significant portion of the year. Jobing.com Arena is guaranteed 41 hockey games annually. The other 324 nights, it must find concerts, conventions or other events to fill the schedule, and in Glendale, where the arena competes with facilities in nearby Phoenix, that can be tough to do.

"We've looked at tons of these things, and the one that we found that seemed to make sense is the Staples Center in Los Angeles," Matheson said. "But they use it 250 dates a year. They don't make sense when you're using it 41 times a year and competing with another venue down the street."

Another reason the projects rarely make sense is because of the way they are structured. Stadiums and arenas are financed with long-term bonds, meaning cities and states will be stuck with the debt for long periods of time (often 30 years). And while cities make 30-year commitments to finance stadiums, their commitments to government workers and other local investments are often made on a year-to-year basis, meaning that, just as in Glendale, it becomes easier to eliminate public sector jobs and programs than to default on debt incurred from arenas.

The counterargument -- made by council member Joyce Clark, who voted for the subsidies, and Glendale First, an organization in favor of the package -- is that the Coyotes and their arena provide support to the local economy that otherwise wouldn't be there.

"It's a huge economic engine for Glendale," Bea Wyatt, a spokesperson for Glendale First said. According to Wyatt, who doesn't live in Glendale but frequents the city for Coyotes games, sales tax revenue made up 41 percent of Glendale's budget last year, and a significant portion was derived from sales around the arena. Supporters also claim the deal with Jamison is a good one for the city, since he will eventually pay for the arena's management and employ local workers.

But again, economists don't seem to buy the argument. While Glendale First claims that more than 600,000 visitors -- three times Glendale's population -- came to the city for hockey last year, the Coyotes finished last in the NHL in attendance. And it is unclear how many of those visitors were, like Wyatt, residents of nearby communities who may patronize restaurants but don't spend money shopping or staying in hotels.

Matheson estimates that 20 percent of fans for a Major League Baseball game come from outside the local area, and that the figure for hockey games is likely much smaller. That's hardly enough to fill the local hotels or to add outside spending to the local economy in other ways, he said.

"It's not generating new revenue. This is local spending on a local event," Matheson said, adding that most of the money spent in and around arenas and stadiums would likely be spent elsewhere in the local economy if there were no sporting events to attend.

Though it is clear that new facilities are not a wise investment for taxpayers, the argument from Glendale First stems from the fact that Jobing.com Arena is already there. Refusing to use more public financing - and potentially allowing the Coyotes to leave for a new town - Wyatt said, would amount to the city turning its back on its initial investment and risking the failure of hotels, restaurants, and other businesses.

Glendale "jumped in with both feet, and to now change course would be detrimental to the city," Wyatt said. "Finding a management company that's going to [run the arena] for nothing, relying on acts of god, I don't think that's the way the world works anymore," added Clark, who objected to the characterization of the $324 million as a subsidy, instead called it a "lease management agreement."

Even faced with that question, though, Szymanski was skeptical of the decision to continue financing the team. Yes, Glendale made a sizeable investment - one that went bad surprisingly fast - but that doesn't mean it should throw more good money into a project that likely isn't sustainable.

"The argument here seems to be that if you only put a little more in, even though the initial investment wasn't viable, we now have a plan," Szymanski said. "It's kind of a perverse argument that taxpayers should subsidize this because businesses depend on this deal that isn't viable."

"It's like doubling up in gambling to get your money back," he added. "At some point, you have to say stop."

HOCKEY IN ARIZONA?

If Glendale lets the Coyotes walk to another city, it won't be alone. The NHL's experiment to bring hockey to southern America has had mixed results, succeeding in cities like Nashville and Raleigh, but failing miserably in Atlanta, which lost the Thrashers to Winnipeg last year.

By all indications, the Coyotes are more Atlanta than they are Nashville, particularly in the sense that they have yet to be embraced by the local population even during periods of success. "This is hockey in a non-hockey city where the average resident hasn't seen ice outside of a margarita," Matheson said.

With the city shedding jobs and cutting services, the logical decision would seem to be to take back the funding it has promised to Coyotes in order to preserve those jobs and programs, a stance taken by city council member Phil Lieberman, who voted against the funding package. "I can use that $15 million [annual payment] for good things for Glendale," Lieberman said. "Open our libraries up again...Replace the 55 cops that we're short right now."

But if the city and its residents are desperate to keep the Coyotes in town, they have to understand that doing so comes at a cost that likely won't be replaced -- not by sales tax revenue, not by economic growth, and not by outside spending. When the city subsidizes hockey, it reduces its ability to pay for public safety officials, public transportation, and services upon which its citizens rely.

That's a choice the city is free to make, of course, but it shouldn't pretend that the mere presence of the Coyotes is an economic investment. Doing so simply enables a further transfer of public dollars to a private enterprise, without much hope for a return.

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