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Subsidizing Entertainment Projects As A Strategy For Urban Economic Development: A Cost-Benefit Analysis Of Miami's American Airlines Arena

Marcos Feldman
Florida International University, mfeld001@fiu.edu

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FLORIDA INTERNATIONAL UNIVERSITY

Miami, Florida

SUBSIDIZING ENTERTAINMENT PROJECTS AS A STRATEGY FOR URBAN ECONOMIC DEVELOPMENT: A COST-BENEFIT ANALYSIS OF MIAMI'S AMERICAN AIRLINES ARENA

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Marcos Feldman

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To: Interim Dean Mark Szuchman
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This thesis, written by Marcos Feldman, and entitled Subsidizing Entertainment Projects As A Strategy For Urban Economic Development: A Cost-Benefit Analysis Of Miami's American Airlines Arena, having been approved in respect to style and intellectual content, is referred to you for judgment.

We have read this thesis and recommend that it be approved.

_____
Alex Stepick

_____
Bruce Nissen

_____
Guillermo Grenier, Major Professor

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The thesis of Marcos Feldman is approved.

_____
Interim Dean Mark Szuchman
College of Arts and Sciences

_____
Dean Lakshmi N. Reddi
University Graduate School

Florida International University, 2005

ABSTRACT OF THE THESIS

SUBSIDIZING ENTERTAINMENT PROJECTS AS A STRATEGY FOR URBAN ECONOMIC DEVELOPMENT: A COST-BENEFIT ANALYSIS OF MIAMI'S AMERICAN AIRLINES ARENA

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Marcos Feldman

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Miami, Florida

Professor Guillermo Grenier, Major Professor

This thesis evaluates the practice of subsidizing entertainment projects as economic development strategy through a case study of the American Airlines Arena (AAA). Subsidy proponents argued that it would generate new tax revenue and jobs, and enhance the city's image and pride. This rationale neglects factors that mitigate the economic impact of arenas and fails to consider the social costs. The AAA subsidy is evaluated using a cost-benefit method that has been underutilized in academic research. The economic impact is analyzed by estimating the fiscal return on the public's investment and the number and quality of new jobs created. The social costs are considered in light of Miami's economic development history and the policy implications are discussed. The AAA subsidy results in hundreds of millions of dollars in losses over the term of the public-private partnership and created a negligible number of low quality jobs. Furthermore, the AAA subsidy may have exacerbated relations between residents

and leaders by prioritizing the leisure spending of visitors over the needs of inner city residents.

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Chapter I
Introduction

Arenas and stadiums for professional sports teams have increasingly been financed with public dollars since the 1960's, despite mounting taxpayer opposition to such public-private partnerships. It is has also become common for stadiums to be built in the central business districts of metropolitan areas in the United States. Facilities built in the first half of the 20th century were multi-purpose, serving two or more professional sports teams, and built to accommodate the grid-work and development of the city. These are increasingly being replaced by publicly financed, single-sport facilities that feature more luxury suites, up-scale dining, and other amenities that allow team owners to reap greater profits and provide multiple entertainment and consumption options for wealthy fans. Furthermore, in the context of deindustrialization, suburbanization and increasing socio-economic distress in urban areas, publicly funded sports facilities are increasingly promoted as urban economic development efforts that catalyze the revitalization of central city neighborhoods. Southeast Florida is a case in point for these trends.

The Southeast Florida metropolitan area (Miami-Dade and Broward counties) has added at least three professional sports facilities in the past 20 years and all but one (Joe Robbie Stadium) were financed with public dollars that covered at least half of the total cost. In 2000, the Miami Heat abandoned their 11-year old publicly-financed Miami Arena for a new publicly financed arena built on prime, waterfront property just a few blocks away. The Florida Panthers abandoned the same old arena for their new publicly-funded home in Broward County, just north of Miami-Dade. The Florida Marlins joined

the Miami Dolphins at Joe Robbie[1] stadium following their inception in 1993, but have since lobbied for a new publicly funded stadium in a central city location. The moves of the Miami Heat and the Florida Panthers involved substantial cost sharing with the public and the present trajectory of the Marlins' efforts may earn them a new ballpark financed with close to $200 million in public subsidies by 2009 (Marlins Ballpark, 2005).[2]

Advocates of subsidies for sports facilities typically refer to economic impact analyses conducted by their research consultants that find that a new stadium or arena will generate hundreds of millions of dollars in new sales and tax revenue and create hundreds of new jobs (Pollack, 1998; Ryan, 2005; Sacramento Study, n.d.). Stadium subsidy advocates also argue that the non-economic benefits, such as heightened visibility as a "major league city" and enhanced civic pride serve to strengthen community ties and provide for a favorable investment climate (Baade, 1996, 2000; Johnson and Sack, 1996; Swindell and Rosentraub, 1998; Zimbalist, 2000). Non-economic benefits are also thought of as goods in themselves, for which residents would be willing to sacrifice an increment of some economic benefit (Carlino and Coulson, 2004; Johnson and Whitehead, 2000; Rappaport and Wilkerson, 2001). In Miami, local politicians and business leaders argued that building a new publicly financed arena for the Miami Heat would generate new jobs and revenue for the County, convert the bay-

[1] Joe Robbie stadium became Pro Player stadium in 1996 and was renamed Dolphins stadium in January of 2005.

[2] In a recent memorandum to the Mayor of Miami-Dade County, the County Manager expressed that he is not optimistic that the project can be sufficiently funded and approved to break ground in 2009 (Burgess, 2005). However, several county commissioners contributed to the memo and stated they would continue to seek a new publicly financed, domed stadium for the Marlins.

front property into an attractive recreational space, and enhance the pride and prestige of the city (Finefrock, 1996e; Robertson and Farrell, 1996).

Independent scholarly research on the economic impacts of professional sports facilities suggests that publicly financed stadiums and arenas may not provide the economic benefits that their promoters contend they do (Austrian and Rosentraub, 2002; Baade, 1996, 1997, 2000; Coates and Humphreys, 1999; Hamilton and Kahn, 1997; Hudson, 1999; Miller, 2002; Noll and Zimbalist, 1997; Rappaport and Wilkerson, 2001; Rosentraub, 1994, 1997; Sanderson, 2000; Siegfried and Zimbalist, 2000; Swindell and Rosentraub, 1998; Zimbalist, 2000; Zimmerman, 1997). The rationales used to justify stadium and arena subsidy plans often neglect important principles in economic impact analysis, such as the substitution effect of fan spending (Chapin, 2002; Noll and Zimbalist, 1997; Siegfried and Zimbalist, 2000); the leakage of revenue outside the local economy (Baade, 2000; Howard and Crompton, 1995; Hudson, 2001; Siegfried and Zimbalist, 2000); and the opportunity cost of public investment (Chapin, 2002; Delaney and Eckstein, 2003; Eisinger, 2000; Hone, 2005; Hudson, 2001; Hunter, 1988; Noll and Zimbalist, 1997; Zimmerman, 1997). Further, the methodological challenges of measuring the intangible qualities of urban life, such as "civic pride" or the value of living in a "major league city," make it difficult to capture the non-economic costs and benefits of publicly financed sports facilities (Alexander, Kern and Neills, 2000; Johnson and Sack, 1996; Pelissero, Henschen and Sidlow, 1991).

As voters have become increasingly informed about the economic and non-economic impacts of sports facilities, they have been more reluctant to support subsidy plans for new or existing sports facilities (Brown and Paul, 2002). Policy makers have

nonetheless devised and employed financing options that do not require voter referendums, public hearings or other mechanisms of accountability. To construct and operate Miami's American Airlines Arena (AAA) local officials combined tax abatements, revenue from hotel and rental car ("transient") taxes, prime waterfront property and investment in local infrastructure. In addition, promises of public park space and downtown beautification projects, and an expensive media campaign, were used to gain voter approval for the arena subsidy plan. But despite the hundreds of millions of dollars that came out of public coffers and press coverage of money wasted (Elmore, 2004; Krischer-Goodman, 2001; Walker, 2000) and unjust labor practices (Bridges, 1999; Stieghorst, 1999), to date no research has attempted to measure the public's return on their investment in the AAA.

This thesis analyzes the public's return on their investment in the AAA by estimating the county's share of arena profits over the term of the public-private partnership and the number and quality of new jobs created through increased visitor fan spending. Several academic studies have compared cities with and without publicly funded sports facilities or cities before and after acquiring such facilities, producing findings that suggest that publicly financed sports facilities do not significantly impact job or income growth in metropolitan areas. However, the comparative perspective of these studies does not allow for consideration of the contextually specific factors that limit or enhance the effectiveness of the "sports model" of urban economic development. This thesis employs a cost-benefit, case study approach to measure the costs and benefits of building and operating the AAA with public assistance by accounting for the geography of sports consumption and the political context of the decision to subsidize the

AAA in Miami. Moreover, this case study gauges the "real" value of the AAA by accounting for the substitution effect of fan spending, the leakage of arena revenue outside the economy and the opportunity cost of the public investment. The social and policy implications of subsidizing visitor entertainment are also considered in light of Miami's history of economic development.

Chapter II provides the historical context that is relevant for understanding the economic impact of publicly financed professional sports facilities. The trend in which stadiums and arenas for professional sports are increasingly built and operated with public assistance is described, including the increase in the pace and scale of construction and changes in the design and location of sports facilities. Factors in the professional sports industry that have contributed to the trends in stadium construction and finance are also reviewed, including the development of free agency and the monopoly structure of professional sports leagues. Finally, changes in urban governance that are related to the trend toward subsidized sports facilities are discussed. In particular, the strategies used by local leaders to build their cities through the acquisition of entertainment amenities, including professional sports facilities, are considered. Chapter III reviews the relevant literature on the impacts of professional sports facilities, considering both the economic and non-economic impacts of stadiums and arenas. Particular attention is paid to the basic principles of economic impact analysis, the findings of comparative research on the impact of sports facilities and the findings of research employing a cost-benefit approach. Chapter VI outlines the cost-benefit methodology used to analyze the economic impact of the American Airlines Arena, taking account of the geographic and commercial context of the AAA and the steps required to estimate the new revenue and jobs generated by the

new arena. Chapter V analyzes the economic impact of the AAA using a cost-benefit approach and presents the empirical findings, focusing on the balance of costs and benefits from the new arena and the number of full-time employment opportunities generated for local workers. Chapter VI considers the social and policy implications of this research in light of the past and present context of urban policy and stadium finance.

Chapter II
Historical Context

The Trend Toward Publicly Funded Sports Facilities.

Totaling more than $20 billion in construction costs (Baade, 2003), professional sports stadiums and arenas over the last 30 years have been in the midst of what many have termed a "construction boom" (Coates and Humphreys, 2003; Kennedy and Rosentraub, 2000; Newsome and Comer, 2000). By 2002, more than 61 percent of the 121 professional sports franchises were playing their home games in a facility built since 1991 (Kennedy and Rosentraub, 2000, p. 436). Furthermore, sports arenas and stadiums are increasingly being erected in central city locations. These urban stadium locations may be prime downtown or waterfront property or inner city areas in need of economic revitalization. Newsome and Comer (2000) found that the suburbanization trend in stadium construction characteristic of the period from 1965 to 1985 had been reversed by 1997, exhibiting "a downtown resurgence" that the authors found to be statistically significant.[3]

Owners have sought to play in stadiums and arenas designed to generate higher profits. Siegfried and Zimbalist (2000) observe that from the perspective of team owners, the "inadequacy" of sports venues built before 1990 has little do with seating capacity, structural integrity or the quality of the view from the stands, but rather with the lack of luxury suites, catering facilities and advertising opportunities that generate increased cash flow from high-income fans (p. 89). Luxury amenities in new facilities dramatically

[3] Newsome and Comer (2000) tested the significance of a perceived reversal of the trend to construct stadiums in the suburban locations in favor of central business districts and/or adjacent center city neighborhoods. The increase in stadium construction in these two areas relative to the declining preference for suburban locations was found to be statistically significant.

impact the bottom line of team owners since most luxury seats are not taxed by the leagues the way gate receipts are as part of the league's efforts to redistribute profits and improve competitive balance (Baade, 2003). In 1987 Joe Robbie, owner of the Miami Dolphins, was able to parlay the revenue from luxury suites and personal seat licenses to secure funding for a new stadium independent of public assistance. Robbie's innovative mining of these resources suggested the potential for sports stadiums and arenas to be privately financed.[4]

Since 1987, however, the opposite has taken place in most cases. Municipal governments have increasingly become involved in the business of building and operating professional sports facilities. In 1950 National Basketball Association (NBA), National Football League (NFL) and Major League Baseball (MLB) stadia and arenas had public ownership rates of 46, 36 and 12 percent, respectively. At the same time no NHL facility was publicly owned. By contrast, in 1991 a minimum of 61 percent of the facilities in any of the professional sports leagues were owned by local governments (Coates and Humphreys, 2003, p. 16). The public's share of the cost of new facilities has also increased. State and county shares of funding for new stadiums rose from 9 to 19 percent and 30 to 45 percent, respectively, during the period from 1990 to 2005 (projected) (Altshuler and Luberoff, 2003, p. 34). These subsidies can be direct, in the case of operating payments or land donations, but most often are indirect, in the form of tax exempt bonds, property tax exemptions, and other revenue foregone by the state or municipality (LeRoy and Hinkley, 2002).

[4] The construction cost of Joe Robbie stadium was substantially less since it was built in a remote location, where property values were lower. Nonetheless, his financing strategy was a watershed in the industry.

In the face of greater public opposition to "corporate welfare," the sources of subsidies have shifted away from general revenues. Local officials have turned to funding options that circumvent or appease taxpayer opposition, such as "sin" (tobacco and alcohol) and "transient" (hotel and rental car) taxes, tax exemptions, tax increment financing and other tax strategies (Altshuler and Luberoff, 2003). For example, the use of taxes on tobacco and alcohol to fund new sports facilities increased from 8 percent before 1990 to 37 percent in the decade that followed (Long, 2002, table 4-30, qtd. in Altshuler and Luberoff, 2003, p. 34).

Free Agency.

At the same time as the public sector has become more involved in the financing of sports stadiums these facilities are increasingly being designed to maximize profits for franchise owners. The trend toward more profitable, publicly financed sports facilities in part corresponds to forces inside of the professional sports industry that have shaped the business of building stadiums and arenas (Baade, 2000; Noll and Zimbalist, 1997; Rosentraub, 1997; Bernstein, 1998; Baim, 1994). Comer and Newsome (2000) contend that "the reasons for [the] construction boom differ from earlier decades and reflect pressure from team owners and leagues for higher revenues which, ostensibly, can be repaid only through improved facilities" (p. 105-106).

The development of unrestricted free agency, in which players have greater freedom to sell their talents to the highest bidder, has resulted in escalating player salaries, undermining the competitive ability of less wealthy teams (Rosentraub, 1997) and reducing competitive balance in North American sports leagues (Noll, 2002). The

National Basketball League's (NBA) collective bargaining agreement in 1983 stipulated that players were guaranteed to receive up to 53 percent of league revenues (the "salary cap") (NBPA History, 2005). When this labor agreement expired in 1987 a group of players brought an antitrust lawsuit against the team owners, which was settled through the Bridgeman Settlement Agreement, bringing unrestricted free agency to the NBA, the first league to adopt this policy (NBPA History, 2005). In addition to expanding the rights of professional athletes to sell their talents to the highest bidder, the Bridgeman Agreement shortened and limited the college draft, thus limiting the pool of young talent and increasing the bargaining power of established players (Rosentraub, 1997, p. 5-6, 14). Through successive labor struggles, professional athletes have made additional gains for themselves. By 2001, players were entitled to up to 65 percent of revenues and by 2004 total compensation for NBA players was $1.58 billion and the average salary surpassed $4 million, up from $300,000 in 1987 (NBPA History, 2005).

The development of free agency has contributed to escalating player salaries, intense financial competition among teams and ultimately "accentuates an emulative tendency as it relates to the successful financial behavior and strategies of the most aggressive clubs in the various leagues" (Baade, 2003, p. 588). In their attempts to capture the most talented players, owners have sought to play in stadiums and arenas designed to generate higher profits. For awhile teams' ability to appropriate an increasing percentage of revenue from sales at the stadium or arena helped them cover the cost of rising salaries (Rosentraub, 1997). However, the rate of salary increase was too steep and teams needed ever more sources of income to be able to afford top talent. Deals with cable companies and "superstations" were the solutions for the few teams in large media

markets; but for most, luxury suites and club seating together with expanded restaurants were the keys to financial success (Rosentraub, 1997, p. 5-6). These new strategies for generating greater income required that new facilities be built for new and existing teams across the country.

The Sports Cartel.

Team owners in the United States have been able to successfully demand new or renovated sports facilities as a result of the monopoly structure of the professional sports industry (Delaney and Eckstein, 2003; Euchner, 1993; Kennedy and Rosentraub, 2000; Shropshire, 1995). As cartels, leagues control the supply of teams and compel municipalities to engage in bidding wars to attract or retain professional teams, thereby maximizing the profits and advantage of the team owners that comprise the cartel (Kennedy and Rosentraub, 2000; Euchner, 1993).

The merger of the former American Basketball Association (ABA) and the National Basketball Association (NBA) in 1976 consolidated the monopoly structure of professional basketball in the United States. Prior to this the ABA, which existed for ten years, was a fierce competitor for fans, players and venues with the NBA. The merger constrained the normal operations of the market for professional sports, including the entry of new players and teams in the league. Since then, the entry of new players in the league has been controlled through the NBA draft, in which the salaries for rookie players are set by a scale that is predetermined (until their contract expires and they become “free agents”). In each of the major professional sports in the United States member teams of the league determine collectively, as a committee, when and where a

new team may enter the league. Entry involves a substantial expansion fee to offset the cost to other league members of a reduction in average team revenue that results from adding a competitor for both advertising, merchandising, and championship potential (Noll, 2002). The monopoly structure of professional sports leagues has received protection from the federal court through the Sports Broadcasting Act of 1961 (US Code, title 15, chapter 32). This act provided exemption to the leagues from antitrust laws governing the telecasting of sports. Specifically, leagues may enter into limited agreements with television networks in order to broadcast a "sports package" to viewers, forcing several TV networks to compete for one contract.[5]

Kennedy and Rosentraub (2000) summarize the process resulting from the various protections of the monopoly over professional sports in the United States:

> The cartels, as one would expect, control the supply of franchises to maximize their profits and advantage. Each league seeks to ensure that there is at least one region (and perhaps two or three) that does not have a team. These regions become the "chasers," pursuing existing teams with extremely generous incentive packages. They also chase the leagues themselves, describing the large incentive packages they will provide if they are granted an expansion franchise. Team owners and league officials share the contents of these offers with cities

[5] Professional baseball and football have been specifically exempted from antitrust regulation. The Sports Broadcasting Act of 1961 singled out the National Football League for antitrust exemption (by essentially guaranteeing the league, rather than individual clubs, the right to negotiate broadcast agreements) and Major League Baseball's was similarly protected from antitrust laws governing TV broadcasts in Baltimore Orioles, Inc. v. Major League Baseball Players Association in 1986 (U.S. 805 F.2d 663). More important for Major League Baseball, however, was the decision in Federal Baseball Club v. National League in 1922 (259 U.S. 200), in which baseball leagues were ruled to be exempt from antitrust laws established under the Sherman Antitrust Act of 1890. The court found that baseball was a state affair, not interstate commerce, and therefore should be protected from competition on the open market. The decision was reaffirmed in 1952 (Toolson v. New York Yankees, 346 U.S. 356) and 1972 (Flood v. Kuhn, 407 U.S. 258).

> that currently host teams in an effort to generate counteroffers and increases in the size of existing incentive packages. (439)

This industry structure allows team owners substantial leverage over cities and their public officials through threats to relocate to another city or in the bidding wars that cities engage in to attract a team. Team owners have taken advantage of the insulation from market forces to pressure municipalities into meeting their demands (Delaney and Eckstein, 2003; Shropshire, 1995). The increasing incidence and proportion of public assistance provided by state and local governments for the construction and operation of professional sports facilities was noted above. Thus far San Francisco, and to a lesser degree Los Angeles, are the only cities in which the opposition has been able to resist the will of proponents to build the city through the sports model (Keating, 1999; DeLeon, 1992).[6] But while stadium subsidies have proliferated in the United States they have been rare in Europe (Noll, 2002). A brief overview of the contrasting structure of sports in Europe, particularly professional football (soccer) leagues, sheds additional light on the

[6] The San Francisco Giants had sought a new baseball stadium since 1981 but proponents of a new publicly financed stadium for the Giants lost ballot initiatives in 1987 and 1989. Only in 1996, when proponents guaranteed voters that no direct public subsidies would be provided, was a new stadium for the Giants (now Pac Bell Park) publicly approved to be built in the China Basin (Agostini, Quigley and Smolensky, 1997). However, Long (2005) finds found that subsidies were subsequently provided through publicly financed infrastructure improvements in the surrounding area. Altshuler and Luberoff (2003) note that in San Francisco local officials, who "learned to segregate the public and private roles so deftly" (p. 242), were able to assemble public lands, provide low-interest loans, infrastructure improvements and tax abatements. But in the end Pac Bell Park received a relatively small public subsidy and voters twice successfully rejected previous plans that involved larger subsidies. A similar scenario unfolded in Los Angeles, where a coalition of community-based organizations was able to resist and shape the plans of arena subsidy proponents. While the Staples Center, home to three major league teams, was built with public funds, community-based organizations secured a Community Benefits Agreement (CBA) from the developer. The CBA stipulated that in exchange for the community's support for the arena plans, the developer must provide the community with social and economic benefits (good jobs for local workers, child care facilities and programs, and more) (LeRoy and Aparicio, 2002). Thus, San Francisco and L.A. represent cases of successful grassroots resistance insomuch as plans to build new publicly financed were significantly modified by the will of voters and community organizations and residents.

relevance of the structure of sports leagues for the political and economic calculations involved in subsidizing sports facilities.

European football leagues have for many decades operated under a system of promotion and relegation, as compared to the single "major league" structure of North American professional sports. The promotion/relegation (PR) system features a national football league organized as a hierarchy of "divisions" in which the most successful teams (in terms of win-loss ratio) are promoted to higher divisions while the worst performing teams are relegated to divisions below. Division size is regulated by maintaining or changing the number of teams allowed to be promoted or relegated each year. In addition to entering a new division by means of competitive merit, cities in which market demand for sport grows enough to support a new team financially (i.e., afford the costs of a playing facility, personnel wages, etc.) may acquire one and enter competition at the lowest division without paying an "expansion fee" to the governing body that oversees all the divisions in the national football league. Moreover, in European football, there are several national and international tournaments, such as England's F.A. Cup (and many other such "domestic cups"), in which clubs from lower league divisions may qualify and win; the UEFA Cup, which admits the 5^{th} to 8^{th} place teams in most European football leagues and the UEFA Champions League, which admits the best 4 teams from most European leagues.

Fort (2000) has noted that the similarities between the organization of sports in Europe and the United States may outweigh the technical differences. Indeed, a number of researchers agree that both European and North American sports leagues operate as monopolies (Fort, 2000; Andreff and Staudohar, 2000); or they find that an important

difference between the structure of the leagues is a matter of the degree to which the sports market is monopolized (Noll, 1998, 2003). However, of relevance to this analysis is the fact that while both clubs in Europe and the United States are compelled to reap large profits to keep pace with increasing player salaries,[7] in the former context subsidies for sports facilities are rare while in the latter they are common.

Plainly stated, the PR system, by exposing leagues to market competition nationally among cities, makes city officials less vulnerable to the demands of team owners. Football clubs exist in virtually every European city large enough to support one, thereby providing a home team sports product almost everywhere where there is demand (Noll, 1998). Not only is there little or no untapped demand for team owners to exploit but the greater historical relationship between individual teams and their fans precludes the possibility of abandoning one fan base for another for financial reasons (Baade, 2003). By contrast, American sports leagues have placed strict constraints on league expansion to maintain excessive demand, thereby establishing a "stadium game" in which a new or relocating team will go the highest bidder among cities.

However, the developments in the sports industry only partly explain the increasing public sector involvement in professional sports and the facilities where they are showcased. Changes in the way cities are being built and governed also shape municipalities' decisions to enter into business partnerships with sports team owners.

[7] Free agency in European football was established in the Bosman case in 1995 which had an immediate positive impact on player salaries (Noll, 1998).

Urban Governance and Economic Development.

> I feel like a Roman Emperor. I can't give decent city services, I want to close [city] health centers, and I want to cut back on library hours, and here I am giving bread and circuses to the people.[8]

The statement of the Mayor of Philadelphia in 1993 exemplifies the recent strategic shift in city governance in the United States. During the rapid urbanization of the late 19th and early 20th century the "great task of American municipal governments was to manage the politics of city building for a burgeoning populace by providing the public services essential to health, safety, and civic education" (Eisinger, 2000, p. 316). A century later, cities are being built as "places to play" (Judd and Fainstein, 1999) through the construction of costly entertainment amenities, often in partnership with private investors (Altshuler and Luberoff, 2003; Eisinger, 2000).

Deindustrialization and national economic restructuring throughout the post-World War II period has altered the way downtown and inner city areas are being planned and developed (Altshuler and Luberoff, 2003; Eisinger, 2000, 1988). As the manufacturing-based economy abandoned its traditional home in Northeast and Midwest cities of the United States in the latter half of the 20th century, the residential population of central cities eroded along with the urban tax base and public expenditures, contributing to increasing social and economic distress (Eisinger, 2000; Wilson, 1996). In their attempt to stem suburbanization and the steep decline in the vitality of central cities,

[8] This statement was given by Philadelphia Mayor Edward Rendell on the inaugural occasion of the Pennsylvania Convention Center, 1993 (qtd. in Bissinger, 1997, p. 202).

public officials shifted from a "managerial" to an "entrepreneurial" form of governance (Eisinger, 1988; Harvey, 1989; Nichols-Clark, Lloyd, Wong and Jain, 2003). The development of the city through the enticement of private capital became the bipartisan mandate of local leaders (Eisinger, 2000, 1988). Hotels and convention centers are like municipal cash registers;[9] virtually their entire occupancy is comprised of visitors from out-of-town who stay overnight and pay considerable room taxes. Further, visitors are more likely than local consumers to spend on food, retail and entertainment, thus importing sales and tax revenue (Petersen, 1996). Promotional studies of proposed visitor amenities almost always project substantial increases in visitor attendance and subsequent impacts from the ripple effects of new spending (Howard and Crompton, 1995). Moreover, downtown redevelopment involves infrastructure improvements designed to provide visitors with easy access to the central city by way of well lit, aesthetically enhanced corridors, masking the dilapidated conditions of nearby communities and thus the social contradictions inherent in such redevelopment (Friedman, Andrews and Silk, 2004). Some observers have characterized this process as a shift away from developing cities to accommodate the needs of local residents toward planning and development that covets the "visitor class" (Eisinger, 2000; Judd and Fainstein, 1999; Friedman, Andrews and Silk, 2004).

In many urban areas professional sports facilities have played an important part in this process as catalysts for the cultural and economic revitalization of inner city neighborhoods (Altshuler and Luberoff, 2003; Eisinger, 2000; Judd and Fainstein, 1999;

[9] A study by Los Angeles Alliance for a New Economy (LAANE) and The Center for Labor Research and Education at UCLA (1999) found that hotels and convention centers generate considerable net revenues for municipalities even when underutilized because of the various taxies levied on them and the fact that most of the revenue they generate from sales represents a rise in exports (p. 58, 82).

Noll and Zimbalist, 1997). The use of sport in the entrepreneurial strategy of urban development has been widely documented (Curry, Schwirian and Woldoff, 2004; Delaney and Eckstein, 2003; Fort, 2003; Rich, 2000; Noll and Zimbalist, 1997; Shropshire, 1995; Euchner, 1993; Pelissero, Henschen and Sidlow, 1991). Previously in this section, I noted the increased pace and magnitude of public expenditures on sports facilities, as well as the tendency toward building such facilities in or near the central business districts of American cities. Ironically, while prior to 1970, 71 percent of cities that built sports facilities were growing rapidly, since then only 57 percent are growing (Eisinger, 2000). Moreover, of the 30 cities that publicly funded new sports facilities since 1970, twenty six experienced a considerable increase of people living in neighborhoods with poverty rates greater than or equal to 40 percent (Eisinger, 2000, p. 321). While this is to be expected given the nature of urban socio-economic decline during that period, it is remarkable that such publicly funded projects, designed and built to accommodate "the visitor class," continue to be politically feasible in the midst of increasing urban inequality.

Local Politics.

Developments in the professional sports industry and the changes in urban governance have shaped the politics of sports subsidies at the local level. A growing body of research argues that local actors coalesce around stadium subsidy proposals to achieve their individual goals, which may overlap, diverge or be completely disconnected (Delaney and Eckstein, 2004; Curry, Schwirian and Woldoff, 2003; Foreman, 2003; Keating, 1997; Pelissero, Henschen and Sidlow, 1991). This research also finds that the

prevailing socio-political and economic context of the city modifies the interests and actions of influential local players related to professional sports facilities (Delaney and Eckstein, 2004; Curry, Schwirian and Woldoff, 2003; Foreman, 2003). In particular, demographic changes, cultural norms and traditions in political and civic life, the economic vitality of the city and the relative strength of the urban power structure are thought to shape the outcome of the struggle over building private stadiums with public dollars (Delaney and Eckstein, 2004; Curry, Schwirian and Woldoff, 2003). While it is beyond the scope of this thesis to review this literature, it is useful to briefly consider the local politics in which the decision to subsidize the AAA was embedded.

Like Denver, San Diego and Phoenix, cities that have recently built professional sports facilities with public dollars, since World War II, Miami has had a growing economy with a burgeoning population. From 1960 to 2000 the total population grew by 144 percent, slowing from 36 percent in the decade prior to 1970 to 16 percent between 1990 and 2000 (Census Scope, 2005). Also like its western "sunbelt" counterparts, Miami's urban power structure had been relatively weak throughout the 1950's and 60's, suffering from a fragmented organization. Stepick, Grenier, Castro and Dunn (2003) noted that the business leadership in these decades "seemingly came from everywhere else, with few elites having deep roots in South Florida" (p. 37). Appalled at the ineffectiveness of local leadership, Alvah Chapman, an executive at Knight-Ridder, a local media giant, set out to transform the Greater Miami Chamber of Commerce. The chamber's ranks swelled from 750 members in 1984 to over 4000 by the year 2000. Chapman also secretly organized the Non-Group, an unofficial grouping of executive officers from the city's largest companies (Stepick et al., 2003, p. 36-7).

Among the numerous central city development projects accomplished through the integrated efforts of the local political and business elites was a light rail system; a waterfront shopping and entertainment center known as Bayside Marketplace; the Miami Heat's former home, the Miami Arena and its more recent replacement, the American Airlines Arena; a new high-rise government center and a new main library, historical museum and fine arts center just across the street (Stepick et al., 2003). More recently a costly Performing Arts Center has been under construction for over a year and the Miami 21 plan, featuring plans for intensified downtown and regional economic development, was unveiled. Indeed, Miami is in the early stages of the gentrification of its historical central city communities and already in the midst of considerable high-rise condo and commercial development near the central business district. While the local urban power structure was still fragmented and weak in the 1960's, of late it seems to have become more organized, coherent, and inexorable in its ambitions. The construction and operation of the American Airlines Arena with public subsidies, which was made possible by cooperation between Miami's white and Latino business elites, represents a case in point.

The inspiration behind the plan for a new arena for the Miami Heat was the desire to make more money and subsequently purchase more expensive basketball talent. The statements of Jay Cross and other team spokespersons indicate that the Miami Heat sought to avoid additional financial losses at the Miami Arena (Talalay, 1999). The former arena's "cozy" design undermined the team's ability to compete economically in the context of league-wide trends toward more profitable sports facilities (DeFede, 1996). With only 16 luxury suites and a capacity of about 15,000, some observers retrospectively commented that the arena was obsolete from the time it opened (Brady,

1996; DeFede, 1996). According to Robert Franklin, general manager of the AAA's concessionaire's in 2000, "the new arena was built and contemplated so the team doesn't have to share revenue with the landlord or management company… [and] it was designed and built with the intention of maximizing revenue for the team" (Krischer-Goodman, 1999, p. 2). When Micky Arison took over the team from his father Ted in 1995, he said he would not renew his lease and sought a public subsidy to build a new facility from which he could generate enough revenue to field a more competitive team (Foreman, 2003).

Bicentennial Park, located near the Miami Seaport and overlooking the bay, emerged as the primary site of interest for a new facility for the Miami Heat (Tanfani, 1996). As owner of Carnival Cruise Lines, Arison had an interest in the Port from which his luxury ships departed for various vacation spots in the Caribbean. Director of the Seaport and an important player in local business and political relations, Carmen Lunetta, was aggressively seeking expansion of the port and had a natural interest in placing the new arena at the Bicentennial Park location as it was expected to boost bay-front business and tourism (Foreman, 2003). Miami-Dade officials refused to consider the possibility of a bay-front arena but Micky Arison used subtle threats of moving his basketball franchise and cruise ships to Broward County "to awaken Miami-Dade's civic and political community about the stakes of the game" (Foreman, 2003, p. 102).

County commissioners could vote to approve a subsidy for a new arena but eventually had to enlist an outsider, a member of the civic community, to broker the deal between the team and the county. Early in 1996 county officials asked Anthony Ridder, owner of The Miami Herald newspaper and member of the elite Non-Group, to facilitate

the deal with Arison (Foreman, 2003). Soon after, in an emergency meeting in March 1996, Miami-Dade commissioners approved an arena subsidy proposal in the face of internal dissent (Dade County BOCC, 1996). Among the dissenting commissioners was Alex Penelas, who argued that the county assumed too great a financial risk in the proposed plan and was also opposed to the use of scarce public land on the waterfront for a new arena. The prevailing structure of county authority, in which a majority of commissioners could approve a resolution in the face of minority dissent, ensured that the plan could not be blocked (Foreman, 2003). However, this structure would soon be transformed.

The subsidy plan approved by commissioners in March of 1996 was challenged by an opposition group referendum, led by local attorney Dan Paul, who gained enough signatures to place the issue on the ballot for November of that year (Finefrock, 1996e). In the same year as the decision over the fate of a new facility for the Miami Heat arose, the structure of Miami-Dade government changed, centralizing authority with the addition of the position of executive mayor (Foreman, 2003). The referendum campaign coincided with the campaign for Miami-Dade's first executive mayor and Alex Penelas took advantage of the arena subsidy issue in his mayoral campaign. A large part of his campaign was built around opposition to the Ridder subsidy plan (Finefrock, 1996b). Penelas was elected a month before citizens would vote on the new arena in an election characterized by ethnic rather than partisan solidarity among voters (Hill, Moreno and Cue, 2001).

The ethnic connection would also prove useful a few months later when Penelas would reverse his previous position as he pledged his support to the arena subsidy

proponents following his successful bid to be the executive mayor (Foreman, 2003).[10] After his mayoral victory in Miami, Penelas began working behind the scenes to structure a new deal with Arison and the Heat. Penelas called upon trusted associates in the civic community to re-work the deal with Arison through the mediation of Anthony Ridder (Foreman, 2003). The original Ridder plan drawn up prior to Penelas' involvement called for the county to invest a total of $253 million in direct subsidies, including a hotel bed tax, state funds for port improvements, a state sales tax rebate to fund arena construction and a substantial cost for infrastructure improvements (Dade county BOCC, 1996). The Ridder plan had a very limited revenue sharing stipulation with the county while forcing the county to assume the risk of cost overruns during the construction phase (Dade county BOCC, 1996). The plan re-worked by Penelas significantly changed the arrangements such that the total amount of direct and indirect subsidies was slightly higher, with the state and the city contributing a larger share, but the construction of the arena (and any cost overruns) would be financed by the team (Related Agreements, 1997; Talalay, 1999).

But the plan did not sell itself. Less than two weeks before the referendum, a Herald-NBC 6 poll reported that 48 percent of residents opposed the subsidy proposal for the AAA, with only 36 percent in support (Finefrock, 1996d). Mayor Penelas and the arena subsidy proponents faced the task of persuading a large number of voters to reverse

[10] The exploitation of critical elements of community solidarity by politicians seeking to harness public dollars for sports stadiums is not uncommon. While in Miami the cohesive element was the politics of ethnicity, in Phoenix local politician Jan Brewer played to the anti-tax philosophy of the local elderly population to win a political election. Once elected to the county board of supervisors, Brewer flipped sides and joined the corporate-based stadium proponents who sought to raise taxes to fund a new facility for an expansion professional baseball team (Delaney and Eckstein, 2003, p. 125). She subsequently used her established connection with the public to help the stadium proponents achieve their goals.

their position on the arena subsidy issue, a position which was probably reinforced by the anti-subsidy message in Penelas' recent mayoral campaign. The ballot initiative was worded such that a "no" meant yes to the new arena; it asked voters whether they were opposed to a new publicly funded arena and whether they opposed a new facility to be built on the waterfront (Finefrock, 1996a). Observers from the local press noted that the inclusion of two separate negatively worded questions may have confused voters (Finefrock, 1996a; Nielsen, 2000). Ultimately, county voters rejected the initiative against the arena by 59 to 41 percent, with the bulk of the opposition to the new arena coming from neighborhoods that were predominantly non-Hispanic Whites.[11] This suggests that the strongest support for the Penelas plan for County subsidies to the arena came mostly from ethnic and racial minorities. While the charismatic mayor was a critical factor in selling the new plan to voters (Foreman, 2003), the role played by a marketing consultant has been overlooked. It has been acknowledged that arena proponents spent $3.7 million on the campaign compared to the opposition's approximately $70,000 (Foreman, 2003; Ostrowski, 1999), but the strategic knowledge provided by the county's marketing consultant was a valuable contribution to the arena subsidy campaign. A Hill Research poll revealed key aspects of the ethnic solidarity in Miami as well as shed light on the social value of the team to local residents.

> Cuban-Americans saw the arena as a symbol of pride and local achievement. African-Americans saw an economic project bringing new jobs and had pride in the local NBA team. White voters were most excited about a new family-

[11] While a majority of voters in neighborhoods that were predominantly non-Hispanic white rejected the opposition initiative as well (54 percent), the proportion was substantially less than for neighborhoods inhabited primarily by non-Hispanic blacks (66 percent) or Hispanics (68 percent) (Finefrock, 1996c).

> friendly park on Miami's waterfront, including soccer fields and a new arena, which would bring in concerts and other entertainment events. Recasting the arena as a waterfront park and arena was to be key to our campaign. (Murphy 2004, p. 2)

In addition to targeting the relevant ethnic and racial markets in Miami-Dade, the strategic campaign developed by the consultants made effective use of the support of Alex Penelas, the popular Miami Heat coach Pat Riley, and other athletes and celebrities (Finefrock, 1996c; Murphy, 2004).

More critical observers attribute the success of the Penelas plan to "rhetorical banana peels" (Nielsen, 2000), including the wording of the ballot question as well as the various "ideas" about other amenities that were to be included on the arena property. The arena proponents' campaign, broadcast on television and in the local print media, featured three-dimensional computer renderings prepared by Cooper-Robertson, the county's consultants, of a proposed soccer field, a public park and plaza, and a pedestrian bridge (Jimenez, 2000; Nielsen, 2000). Dan Paul asserted that the arena proponents "seduced the public with grand plans that they never had any intention [of] building" (Jimenez, 2000, para. 2). Presently one restaurant sits on a portion of the site where in the proponents campaign a soccer field and public space was proposed to be developed. The rest of the undeveloped land facing the bay is empty, where recently a few construction vehicles could be seen leveling the land in preparation of some development.[12]

[12] Like the political exploitation of community values, the use of "fantasy documents," which present seemingly neutral and objective assessments of a project and mask underlying individual or organizational interests (Clark, 1999), is widespread in the politics of stadium subsidies. In Denver similar three-dimensional computer renderings of the future of the community that would host Coors Field featured a pedestrian overpass, residential housing, an international shopping district and a number of landscaping

The opposition to the subsidy plan in Miami was relatively weak, led by local attorney Dan Paul and his coalition of mostly environmental activists, including a handful of local intellectuals (Talalay, 1999). The initial details of the Penelas plan and the strength of the pro-arena coalition were developed in secret, thereby giving opponents a late start in developing their campaign strategy. Foreman (2003) points out that while opposition movements on other political issues in the 1990's tapped into local ethnic and racial minority bases, Paul's was mainly a "paper" coalition and as mentioned previously, had far less campaign funds than the arena proponents (p. 214). Although significant dissent existed within the county commission, the changed political structure acted as a "containment mechanism" against these internal forces (Foreman 2003, p. 214; Dade County BOCC, 1996).

In addition, the presence of a relatively strong urban power structure meant the opposition would have to be formidable to resist the will of the arena proponents. While the effectiveness of the traditional Anglo elite to influence local politics had been weakened or at least modified by the growing influence of Latino political and business leaders (Stepick et al., 2003), its connections were still needed and called upon in the collaborative effort to build the AAA (Foreman, 2003). Foreman (2003) argues that it was the interaction of various circumstances that determined the outcome of the arena subsidy decision in Miami and the shape that the arrangements between the team and the county took.

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projects (Delaney and Eckstein, 2003). Like Miami, Denver's utopian visions of a vibrant stadium community never materialized.

> The modified formal political structure coupled with the looming referendum produced the change in public policy. Alex Penelas, the new county executive mayor […] used his electoral mandate and a team of trusted negotiators to rework the subsidy plan with the Heat, and then sell it to voters to defeat the opposition referendum in November and clear the way for a new arena to be built. (Foreman, p. 102)

Moreover, "the difference between how the Ridder plan was negotiated and the reworking of the Penelas plan reflects changing patterns of influence in Miami-Dade policy making" (Foreman, p. 131). The growth in the power and visibility of Latin- and Cuban-American political and civic players (Stepick et al., 2004; Warren and Moreno, 2003) meant that Arison had to form a coalition with the new Hispanic leadership in addition to the traditional Non-Group elites to gain support from the growing Hispanic constituency (Foreman, 2003).

This brief history illustrates how despite the nuances introduced by the context of ethnic politics and changed formal government structure at the local level, the case of Miami is shaped by the broader forces in urban governance and the professional sports industry that have compelled municipalities to support new professional sports facilities. This review of the Miami case is not sufficient to draw any strict conclusions, but it reveals some important continuities with broader trends related to the sports industry and urban governance.

The details of the AAA's financial arrangements revealed in the following chapters illustrate how the Miami Heat's new arena is fairly typical of the trend toward replacing economically obsolete stadiums and arenas with new downtown facilities

designed to capture more spending and generate greater profits for team owners and players. The pressure of escalating player salaries stemming from the sports industry was clearly felt by Arison and the Heat at their former arena in Overtown. While the bargaining leverage of the league cartel was not as relevant in this case since the Heat were not an expansion team in 2000, the competition between Broward and Miami to host the team in part reflects the anxiety of public officials over losing (or gaining) a sports franchise and consequently receiving a blow to the city's "major league" status (and consequently a decline in tourists). The case of the AAA is also representative of the trend toward building the city for the visitor class, although Miami appears to still be in the early stages of its urban renaissance (Dluhy, Revell and Wong, 2002).

Most important, however, for the economic impact of the AAA, was the abruptness of the decision to build and operate it with public funds. While in Philadelphia, Pittsburgh, Minneapolis, Cleveland and Baltimore it took local leaders almost a decade to achieve their stadium ambitions, the plan to build the AAA was finalized only two years after Arison's demands and the project was completed less than three years after that. The rushed negotiations contributed to the resulting finance structure that benefits the team's owners and players at the expense of local taxpayers. In addition, the arena was built as one of the first large entertainment amenities in the northern part of the central business district and thus was not integrated into an existing commercial and architectural fabric which would enhance its ability to generate spending from visitors. As noted, the opposition in Miami was weak and the urban power structure was able to quickly and secretly coalesce and garner taxpayer support to divert scarce public resources toward an expensive entertainment project with little in the way of

planning and accountability. Particularly in this last sense, the case of Miami mirrors the experiences of many cities across the United States. The implications for the public interest at the local level are daunting. The next chapter reviews the literature that has analyzed the impacts that these decisions have had on local communities.

Chapter III
Literature Review

Chapin's (2002) typology distinguishes between the economic and non-economic effects of subsidized sports facilities. Non-economic impacts of sports stadiums are manifest in the political and social realm when a franchise alters a city's image (Chapin, 2002, 2004; Rosentraub, 1997), sense of civic pride (Hone, 2005; Rosentraub, 1997), the fabric of everyday social interactions (Eisinger, 2000; Rappaport and Wilkerson, 2001; Riess, 2000) and the dynamics of local political relationships in the struggle over stadium financing (Curry, Schwirian, and Woldoff, 2004; Delaney and Eckstein, 2003). Economic impacts may in part be consequences of non-economic impacts, but the former are measured as local and/or regional economic changes in the number and quality of jobs, in income, property values and other indicators of economic development (Baade, 2003; Noll and Zimbalist, 1997; Rappaport and Wilkerson, 2001; Rich, 2000). If the perception of an improved "investment climate" leads to economic growth then this is an example of a non-economic impact translating into economic impacts.

Regarding Miami's American Airlines Arena, this analysis quantifies its present "value" to the public using a cost-benefit approach that measures the difference between the total subsidy provided for the construction and operation of the American Airlines Arena and the total economic benefit that is generated for local taxpayers. This chapter reviews the different approaches that have been used to measure the economic impact of publicly financed sports facilities. While the use of the "social benefits" rationale by stadium proponents will be considered in the final chapter as a political issue, the

scholarly research that has attempted to measure the non-economic impacts of professional sports facilities deserves mention in this chapter.

The Non-Economic Impacts of Professional Sports Facilities

According to Chapin (2002), non-economic benefits may not only be large enough to tip the cost-benefit balance toward a positive assessment of stadium building, but cities "routinely invest in projects that are not economically viable," such as concert halls, museums and open park and recreational space in urban areas (p. 8). While these alternatives do not tend to generate large profits for rich team owners and players, they nonetheless represent substantial public investments toward the consumption of cultural and recreational activities that are supposed to make us happy. Still there are other reasons to consider non-economic impacts.

Proponents have traditionally justified public expenditures for stadiums on economic grounds (Crompton, 2001). But the recent body of research that has eroded that rationale has forced stadium proponents to increasingly emphasize the non-economic impacts of attracting or retaining a professional sports team. Curry, Schwirian, and Woldoff (2004) observe that proponents often frame their campaign to finance a new sports facility in terms of urban economic revitalization but later supplant this argument with "warnings" that if a franchise is not successfully retained or attracted, the city may lose or fail to gain "major league" status and prestige. Christopher Flores of *Sports Illustrated* wrote of the Los Angeles Rams moving to St. Louis, "Without them, we're a cow town" (March 13, 1995). This framing of the issue emphasizes the benefits to an

area's image and sense of civic pride. However, it is unclear how and to what extent the presence of professional sports impacts local residents in these non-economic ways.

When economists try to gauge the social benefits of the presence of sports teams they couch their discussion in terms of "quality-of-life" measurements. An individuals' quality of life is positively impacted by a sports team if the presence of the team enhances their happiness and satisfaction with their living environment. Having a common topic of conversation with other city residents or having access to the travails of the local pro sports team through television programming are two ways in which a team may enhance satisfaction (Rappaport and Wilkerson, 2001; Zimmerman, 1997). These and other similar benefits are essentially consumption benefits and to the extent that residents consume sports entertainment they may receive substantial benefits.

However, unlike a sunny day or an old-growth forest that provides benefits by its mere existence, sports entertainment is mostly a private consumption benefit that is contingent upon certain forms of access (Zimmerman, 1997). To the extent that enjoying professional sporting events requires expenses related to admissions, parking, or cable television, a considerable number of local residents are automatically excluded. The greatest consumption benefits are most likely extracted from luxury suites at stadiums, an exclusive privilege of an urban area's business elite and celebrity class. Making the issue of equity the focus of their research, Siegfried and Peterson (2000) find that the vast majority of spectators attending a typical urban sports event are middle- to upper-class and live outside the environs of the stadium.

Nevertheless, economists have developed several approaches for gauging "quality-of-life" benefits. Starting from the most quantitative approach, a "valuation" or

"consumer surplus" method contends that the amount of money a fan or resident is willing to spend above and beyond the actual value of a product represents the quality-of-life benefit to that individual of consuming sports entertainment (Alexander, Kern and Neill, 2000; Irani, 1997). For example, if survey research reveals that on average fans would be willing to pay $25 for an admission ticket that only costs $20, they receive a $5 benefit by attending the game at the lower ticket price. A different approach attempts to gauge what residents are implicitly willing to pay for a team by merely living in a certain city. In this case, if residents are willing to incur higher housing costs or lower wages to live in a "major league" city, the difference in these values compared to that of other cities is the implicit benefit they receive from the amenities of that city that make it "worth it" to live there (Johnson and Whitehead, 2000; Gyourko and Tracy, 1991; Blomquist, Berger, and Hoehn, 1988; Roback, 1982). Rappaport and Wilkerson (2001) have also argued that the success of cities in attracting *replacement* sports franchises may be evidence of their willingness to pay for professional sports and therefore the size of such outlays relative to other cities provides an indicator of the magnitude of the social benefit they receive from the team's presence.

The assumptions of Rappaport and Wilkerson and others are problematic, however, for several reasons. First, stadiums and franchises are being subsidized in the face of voter disapproval all over the country (Brown and Paul, 2002; Eisinger, 2000; Fort, 2003), suggesting that widespread "willingness-to-pay" is not the norm. It is equally problematic to attribute too large (if any) a proportion of a city's image or civic pride to its professional sports franchise, particularly if the city has beaches, warm weather, and other attractive features to offer. The argument that migrants are willing to incur higher

costs or lower incomes simply because these are the circumstances that result from their actions neglects a fundamental requirement for causality. The relationship between two factors must be *nonspurious*; that is, their relationship cannot be explained in terms of a third factor in order to be causal (Babbie, 2002, p. 86). Moreover, the motivations that drive individual behavior cannot be understood by simply observing the behavioral outcome. In the case of sports facilities attracting more people, investment, or other attention to the city, one can easily think of a number of reasons why individuals or organizations would move or invest in a locality that may have nothing to do with the presence of professional sports. On the other hand, the relationship between migrating people and capital and sports facilities may function in the opposite direction. Team owners are likely to prefer cities with a strong corporate presence and broadcasting market (Delaney and Eckstein, 2003).

Fan surveys used to assess the value of sports to residents may also be flawed. Respondents may tend to exaggerate their "willingness-to-pay" for benefits in surveys, particularly if interviewed at the stadium, sports bar or other sites of sports entertainment (as is frequently the case). This is a problem of sampling bias since the population of stadium-goers is not representative of the population of local taxpayers or residents (Babbie, 2002, p. 182-184). Moreover, it is important to consider "who" is likely to consume the benefits from the presence of professional sports; more often than not the greatest beneficiaries are middle- and upper-class fans (Siegfried and Peterson, 2000) not living in the immediate vicinity of the sports facility and not receiving the negative impacts of its presence (i.e. traffic, noise, etc).

Benefits that are still more difficult to quantify include those that result from social gatherings inspired by sporting events such as barbecues, meeting new people as a result of having a common interest in the local team, increases in local talk radio programs devoted to the successes and failures the local team, and so on (Rappaport and Wilkerson, 2001; Rosentraub, 1997; Zimmerman, 1997). At the same time, the presence of a professional team may increase traffic in certain parts of the metro area or result in cutbacks to alternative television programming that cannot compete with the demand for sports, thus reducing their availability for those who would prefer such programming to sports. The non-economic benefits of sports must be evaluated through a careful consideration of the costs as well.

While Irani (1997) found that in five U.S. cities the non-economic consumption benefits outweighed the massive economic costs of building a stadium, Alexander, Kern and Neills (2000) more detailed case studies of four cities found that the social benefits were not "worth" the economic costs to residents. Other studies have focused on the political costs and benefits of stadium construction (Johnson and Sack, 1996; Pelissero, Henschen and Sidlow, 1991), finding that in most cities substantial political capital is expended to persuade voters to approve subsidy deals for teams and stadiums. Politicians may damage their reputation with residents who are not likely to reap the benefits from such projects, such as low-income minorities in central city neighborhoods, or exacerbate divisions along racial, class or other lines over the issue to subsidize a sports facility (Smith and Ingham, 2003). Moreover, political capital that is expended for one project is sacrificed from another, thereby creating a political opportunity cost (Delaney and Eckstein, 2003).

Still other studies have attempted to understand the extent to which stadiums act as catalysts for local economic development. This may occur through *complementary* development, when local businesses are able to benefit from increased pedestrian and automobile traffic attributable to the stadium and *proximate* development that results from a more general upturn in the investment climate leading to economic growth (Crompton, 2001). The capacity of a stadium to generate positive speculation and attract non-local investment by altering the composition of a city's "quality-of-life" attributes is thought to be part of the stadium's non-economic impact (Crompton, 2001), while the associated change in productivity (jobs, income, etc.) resulting from new capital investments is measured as the economic impact.

These studies have been inconclusive for a number of reasons. While it has been shown that several cities experienced substantial redevelopment concurrent to the development of a professional sports facility (Danielson, 1997), it is not clear to what extent the stadium was the catalyst for redevelopment. Other research has shown that while stadiums present opportunities for substantial redevelopment of an area, some smaller businesses almost always lose out by being crowded out or displaced from the neighborhood surrounding the new sports facility (Chapin, 2004). Indeed, non-economic impacts ultimately have economic consequences that may be positive or negative. The remainder of this chapter reviews the literature that addresses the economic impacts of publicly subsidized sports facility construction.

Concepts in the Economic Impact Analysis of Sports Facilities

The most prolific research on the economic impact of sports stadiums is done by consultants for city and county officials interested in attracting or retaining a professional sports franchise by building a new stadium with public funds. Impact studies commissioned by proponents attempt to quantify the effect of hosting a team on a variety of local economic indicators such as revenue output, personal income, and jobs (Rappaport and Wilkerson, 2001). While most promotional studies argue that increases in these indicators justify larger public outlays, independent scholarly research has pointed to a number of methodological problems with these studies. In particular, they fail to account for the *leakage* of revenue away from the local area (Chapin, 2002; Siegfried and Zimbalist, 2000), the *opportunity costs* of publicly financing a stadium when dollars could have been better spent in other projects (Baade, 2000; Hunter, 1988), and the related *substitution effect* in which spending at the stadium replaces other leisure spending in the area (Baade, 2000, 1997; Chapin, 2002; Siegfried and Zimbalist, 2000). Moreover, promotional studies are plagued by a number of methodological problems, some of which are related to sampling and research design while others are rooted in conceptual oversights, such as the three mentioned above. This section will address the most common and significant mistakes found in promotional studies and review the concepts in the academic literature that facilitate a more valid and precise evaluation of the economic impact of professional sports stadia and arenas.

A careful examination of the factors affecting the capture of revenue generated from fan spending is necessary to understand the potential for new stadiums to positively impact the localities that help finance them. Before analyzing the various ways in which

franchises and their teams produce economic costs and benefits for local communities, it is important to recognize that individual professional sports teams are not big business. Zimbalist (2000) points out that the average NFL team in 1994, with gross revenues of about $65 million, would account for about 0.3 percent of St. Louis's 1993 Effective Buying Income[13] (EBI), 0.6 percent of Jacksonville, Florida's EBI and 0.05 percent of New York City's EBI (p. 58). Rosentraub (1997) concludes that "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" (p. 176).

It is not realistic to expect individual professional sports teams and facilities to have a great impact on localities relative to the overall economic activity of the area. Small- and medium-size cities have greater potential to experience a larger impact from the economic activity generated by professional sports (Zimbalist, 2000). However, all cities may be able to expect that under certain conditions sports facilities spur incremental economic activity. It is important to consider the factors that determine the extent to which a metro area receives positive or negative economic impacts from a professional sports facility built and operated with public funds.

Revenue "Leakage" and the Substitution Effect.

Economic impact analyses (EIA) commissioned by stadium proponents typically assume that the spending of all fans at the stadium and subsequently in the surrounding neighborhood represents beneficial revenue for the local economy. Moreover, they

[13] Defined as personal money income less personal tax and non-tax payments, the EBI is also referred to as disposable personal income.

assume that all of the sales revenue generated from fan spending impacts economic activity in the local jurisdiction. Distinguishing between gross and net spending changes is fundamental for accurately estimating the impact of professional sports stadiums (Baade, 2000). Two economic principles related to EIA illustrate why this distinction is necessary and a more careful examination of the context in which spending occurs is warranted. These principles are the *substitution effect* of increased fan spending and the *leakage* of revenue outside the economy.

While gross spending represents the total amount of spending induced by a sports event, net spending accounts for the amount of spending elsewhere in the local economy that is replaced by spending at the sports event and the amount of the sales and tax revenue generated that "leaks" out and is re-spent in another jurisdiction. Baade (2000) argues that "to the extent that the fan base is largely indigenous to the metropolitan area, net spending in the metropolitan area may increase, decrease, or stay constant even though gross spending on sports increases significantly" (p. 75). However, the extent to which those whose employment is directly or indirectly related to the sports event reside locally also affects the economic impact of the sports event (Zimmerman, 1997). This group involves anybody whose income is wholly or partly derived from spending related to the sports event, including employees of the team, the arena, local hotels and restaurants, and others.

The residence of fans is crucial for accurately measuring the amount of direct expenditure that impacts the local economy (Baade and Matheson, 2000). Consumers adhere to budgetary constraints in their entertainment spending (whether they are conscious of it or not) and are unlikely to dramatically alter their spending because of the

presence of a new sports facility (Baade, 2000). Spending by local fans at a sports facility and the surrounding area is likely to replace spending that would have taken place at other bars, restaurants, movie theatres, and the like (Baade 2000; Noll and Zimbalist, 1997). Moreover, the jobs that rely on entertainment spending in other parts of the local economy are also replaced when spending is realigned toward the environs of the sports facility and other business activity is crowded out (Zimmerman, 1997). However, the spending of fans that do not reside locally represents "new money" (Chapin, 2002) since in the absence of the sports facility they would not have spent money in the local economy. While there are qualifications to this principle, it is generally the case that the greater number of visiting fans an event or facility can attract the greater the impact on the local economy (Baade and Matheson, 2000; Siegfried and Zimbalist, 2000; Noll and Zimbalist, 1997; Rosentraub, 1997).

A second problem that must be accounted for in EIA is *revenue leakage*. Leakage occurs when revenue from sales or other expenses is not re-spent in the local economy (Chapin, 2002; Baade, 2000; Noll and Zimbalist, 1997). In the case of professional sports facilities, team owners and athletes, whose salaries account for the largest portion of a team's expenses, are likely to reside and spend most of their earnings outside the local jurisdiction (Fort, 2003; Baade, 2000). This is particularly true in the off-season, when wealthy athletes and coaches are most likely to vacation or even work outside of the jurisdiction where the stadium is located.[14] Moreover, if the corporate headquarters of team and facility owners (in the case of corporate-owned teams and facilities) are not located within the local jurisdiction then the sizable portion of taxable sales that is

[14] For example, sports teams typically do their pre-season training in a different county or state than that in which they play their home games during the regular season.

generated at the stadium will be diverted away from the local economy (Baade and Matheson, 2000).

The design of many recently built sports facilities further undermines the likelihood that nearby businesses will benefit from increased traffic induced by the stadium. The stadium/mall concept, in which "stadiums have evolved into small, walled cities that more completely compete with and capture [local] economic activity," has been encouraged to help level the playing field between teams in professional sports leagues (Baade, 2000, p. 78). Many new facilities are equipped with such a wide range of consumption activities that fans would have little reason (or money left) to spend outside the stadium. Contiguous business and economic activity would not receive the level of stimulation suggested by the total amount of spending taking place at the arena (Baade, 2000).

These issues are compounded by the fact that municipalities are increasingly agreeing to more generous leases that allow teams to appropriate all of the revenue from the sale of tickets, concessions, sports paraphernalia, parking, stadium advertising, and facility naming rights (Chapin, 2002; Siegfried and Zimbalist, 2000; Baade, 2000; Shropshire, 1995). These so-called "sweetheart" leases generally require the team to contribute a portion of only one of several revenue streams to satisfy public sector demands that the team cover a share of the costs (Altshuler and Luberoff, 2003, p. 35). Insomuch as stadiums capture most of the spending facilitated by the sports event and teams capture most of these proceeds, the stadium may serve "as little more than a conduit by which money flows from one set of non-residents to another" (Baade, 2000).

Individuals not employed by the sports franchise but whose employment is related to the sports event may also live and spend most of their money outside the local jurisdiction. The extent to which this is true is largely determined by the location of the sports facility and the local unemployment rate (Baade and Matheson, 2000; Zimmerman, 1997). The proximity of a sports facility to the boundary of other counties or cities enhances the likelihood that it will attract workers that make their everyday purchases and pay taxes outside the local economy. Furthermore, if the local economy is at or near full employment, then jobs created by the presence of professional sports are more likely to be filled by non-locals (Baade and Matheson, 2000; Zimmerman, 1997).

While the aforementioned factors represent the largest portions of total spending that do not translate into local economic impact, an additional factor is worth noting. The intensity of game-day activity could strain local resources to the point where normal local business activity is crowded out (Chapin 2002; Baade, 2000). Evidence from qualitative research suggests that the sales of local businesses decline on the occasion of sports events during the regular season (Delaney and Eckstein, 2003). The increase in car and pedestrian traffic and noise resulting from the sports event may discourage other locals, who will not attend the event, from spending in the environs of the sports facility.[15] These negative aspects of the sports event are largely dependent on the location of the facility and the residential and commercial character of the community (Fort, 2003; Baade and Matheson, 2000).

For a locality to reap the greatest benefits from spending at the stadium and related to the presence of the team, spending by non-local fans must occur in places

[15] This is especially true for auto racing, which generates higher noise levels than most sports (Baade and Matheson, 2000).

where the revenue is captured by locally residing owners and workers. In other words, *the extent to which the stadium contributes to local economic activity depends on the extent to which new money remains and re-circulates through the local economy* (Chapin, 2002; Baade, 2000; Noll and Zimbalist, 1997; Zimmerman, 1997). Depending on the local sports context, recently built sports facilities may be more capable of attracting a greater number of non-local fans, thus generating more new money and hence benefits for the locality since a greater proportion of sales and tax revenue is being generated locally by fans that burden the social services of another community. The extent to which a stadium generates new money also depends on the team's ability to attract a substantial fan base from beyond the municipal boundaries.

The Cost of Creating Jobs through Stadium Investments.

Noll and Zimbalist (1997) stress that the proper evaluation of costs associated with a public investment must take account of the opportunity cost of that investment or "the sacrifice in other outputs that is necessary to undertake the investment" (p. 60). This amount should be considered in addition to the financial cost of the investment and weighed against the estimated public benefits in a cost-benefit analysis.

One way the opportunity cost can be substantial is if the relevant sector of the economy from which investment has been diverted is at full employment. Noll and Zimbalist (1997) argue that in the case of full employment, "the financial cost of acquiring […] resources (the wages of labor, the prices paid for equipment, materials, and land) is usually a reasonably accurate indicator of the sacrifice in other products that is required for the public investment" (p. 60). When unemployment is low it is more likely

that the new jobs created represent a spatial realignment of jobs within the same industry. Thus, under these circumstances, the amount of public funds invested in one project represents the amount of money diverted from other potential investments. On the other hand, if workers are unemployed, or if resources are invested in projects where there is low productivity, the opportunity cost may be less than the financial cost of the public investment (Noll and Zimbalist, 1997). The opportunity cost may be smaller if the increased labor demand caused by the construction and operation of a sports facility is met through the greater utilization of local (unemployed) workers. However, if jobs are filled by local workers through a realignment of employment within an industry the impact on the local economy could be negative.

The wages paid to workers in jobs created by stadium subsidies may be costs rather than benefits. Zimmerman (1997) found that jobs created by investing in sports facilities in Baltimore, Maryland cost $127,000 each in taxpayer dollars, compared to $6,250 per job created through the state's Sunny Day Fund for economic development (p. 123). In other words, in Baltimore, job creation associated with the stadium imposed losses on local taxpayers compared to the output from alternative investments. Second, while a new sports facility may generate new jobs, these jobs may not significantly increase the aggregate income of the local workforce (Baade, 2000; Zimbalist, 2000; Zimmerman, 1997). The number and quality of jobs directly created by the acquisition of a professional sports franchise are not likely to be better for the local community than the types of jobs that would be created in a different sector of the economy. Zimbalist (2000) estimated that sports teams typically employ between "50 and 120 full-time workers,

along with several hundred low-skill and low-wage, part-time and temporary stadium or arena personnel" (p. 59).

Table 1 presents the relevant wage data for some common types of occupations in the spectator sports industry. The types of jobs likely to become available to the local community as the result of the construction of a new stadium are food concession and other food service workers, ushers and other attendants, security guards and cleaning and maintenance jobs. Bureau of Labor Statistics (BLS) national data on median hourly wages in the spectator sports industry indicates that food concession workers in 2004 earned $7.22 an hour; amusement and recreation attendants earn $7.31; food preparation and serving related workers earn $7.56; ushers, lobby attendants and ticket takers earn $7.88; parking lot attendants earn $8.07; janitors and cleaners earn $8.47; building and grounds maintenance workers earn $8.96; "personal care and service occupations," which make up over 22 percent of the industry's workforce nationally, earn $8.26 an hour. The BLS also provides data for the 10th percentile of the wage hierarchy in these job sectors, where many median wages are under $6 (i.e. for food concessions, ushers and ticket takers, janitors and cleaners, and various other "attendants").

Table 1. Spectator Sports Occupations and Related Statistics

Occupation	Mean Annual Wage	Median Annual Wage	Mean Hourly Wage	Median Hourly Wage	Hourly 10th Percentile Wage	Percent of Industry
Counter attendants, cafeteria, food concession, & coffee shop	$15,470	$15,030	$7.44	$7.22	$5.72	2.52
Combined food preparation & serving workers, including fast food	$15,230	$14,730	$7.32	$7.08	$5.73	0.80

Amusement & recreation attendants	$16,950	$15,210	$8.15	$7.31	$5.73	3.16
Food preparation & serving related	$17,550	$15,730	$8.44	$7.56	$5.74	9.02
Entertainment attendants & related workers, all other	$16,570	$14,600	$7.96	$7.02	$5.78	0.31
Ushers, lobby attendants, & ticket takers	$17,770	$16,380	$8.54	$7.88	$5.81	6.68
Coaches & scouts	$61,400	$22,270	*	*	$5.90	3.41
Personal care & service	$19,990	$17,190	$9.61	$8.26	$5.92	22.39
Parking lot attendants	$17,320	$16,780	$8.33	$8.07	$5.93	1.20
Cashiers	$20,460	$18,060	$9.84	$8.68	$6.26	4.02
Nonfarm animal caretakers	$19,140	$17,630	$9.20	$8.48	$6.28	5.09
Janitors & cleaners, except maids & housekeeping	$19,540	$17,610	$9.39	$8.47	$6.43	2.57
Building & grounds cleaning & maintenance	$21,970	$18,640	$10.56	$8.96	$6.63	5.50
Sales & related	$25,030	$20,660	$12.03	$9.93	$6.70	9.22
Landscaping & groundskeeping	$21,240	$18,860	$10.21	$9.07	$6.76	1.86
Office & administrative support	$27,730	$25,180	$13.33	$12.11	$6.95	12.05
Protective service	$24,640	$21,130	$11.85	$10.16	$7.02	6.49
Security guards	$23,160	$20,970	$11.13	$10.08	$7.04	5.35
Arts, design, entertainment, sports, & media	$71,140	$37,580	$34.20	$18.07	$7.05	15.20
Management occupations	$90,190	$71,690	$43.36	$34.47	$16.19	5.02
Chief executives	$160,580	*	$77.20	*	$37.94	0.40
Athletes & sports competitors	$103,910	$65,960	*	*	*	6.34
Umpires, referees, & other sports officials	$37,890	$21,830	*	*	*	1.78
Athletic trainers	$53,630	$42,950	*	*	*	0.38
Industry Total	$35,920	$21,920	$7.27	$10.54	$6.44	100.00

*Data not available
Source: National Industry-Specific Occupational Employment and Wage Estimates: NAICS 711200, Bureau of Labor Statistics, May 2004

In addition, many of the low-wage jobs cited above are typically "on call" and ultimately provide an unreliable and insufficient source of income (Zimbalist, 2000; Baade and Sanderson, 1997). It is unlikely that these jobs would provide health benefits, hence contributing to the state's social welfare burden.[16] Even for those jobs created at sports facilities that do not replace other local jobs, their impact on the total income within the recreation and amusement industry is likely to be insignificant because of the poor quality of such jobs. Ultimately, when evaluating the economic impact of a subsidized sports facility, the state of the local economy and the value of alternative investments must be considered in order to account for the opportunity cost of the subsidy.

Promotional Studies and the Use of Multipliers.

Stadium subsidy proponents typically claim that increased fan spending from a new sports facility will generate a chain reaction of additional sales, income and employment throughout the local economy. Their argument is based on the multiplier concept, in which new spending in a local economy stimulates economic activity by creating additional business turnover and subsequent job opportunities, household income, and tax revenue (Fort, 2003; Hudson, 2001). The *direct* impacts of spending occur when the revenue from new spending is re-spent locally and *indirect* impacts take place in subsequent rounds of spending (Howard and Crompton, 1995). An initial

[16] Labor markets in many states are transforming into an "hourglass economy," in which there is far more growth among high and low wage jobs compared to middle-income jobs. A recent study in California found that the low-wage segments of the expanding service and retail sector are unlikely to receive health benefits and as a result, public assistance is increasingly becoming a wage supplement for low-wage workers rather than emergency assistance (Zabin, Dube and Jacobs, 2004).

injection of money (e.g., at a new sports arena or local restaurant) may be re-spent (1) by local businesses when they make inter-industry purchases to restock their supplies, maintain their buildings and property and for a number of other purposes; (2) on the wages and salaries of local employees; (3) on local sales, property and other taxes; (4) on taxes levied by non-local governments; (5) and on employees, businesses, and others who reside or spend money outside the local jurisdiction (Howard and Crompton, 1995, p. 59).

The last two expenditures represent ways in which new money leaks out of the local economy. The contextual dynamics of the first three types of expenditures (inter-industry purchases, employees and taxes) determine the size of the multiplier value. For example, big cities are more likely than small towns to have locally-based inter-industry networks, hence reducing the degree of leakage (Fort, 2003; Hudson, 2001). The sectors of the economy and the types of expenditures that are made also affect the size of the multiplier. Certain industries and transactions are more likely than others to leak money through extra-local purchases and taxes (Fort, 2003). Less of the spending by a local construction firm that purchases cement that is manufactured locally will leak out of the economy compared to a local restaurant that imports most of its wine. In the case of taxes, there is variation among states and municipal governments in the degree to which economic activity generates or forgoes tax revenue. Some states and localities incur an opportunity cost when they grant tax exemptions for certain types of purchases, such as building materials, to attract new investment (Fort, 2003). The ripple effects of new money are also limited through individual saving habits. Some of the new spending induced by a sports facility becomes household income for local residents through

salaries and wages and is less likely to be reinvested locally. People typically save a portion of their income, in which case this money contributes nothing further to the local economy within the period in which the multiplier effect is considered (Howard and Crompton, 1995, p. 60).

As noted above, economic impact analyses (EIA) commissioned by the proponents of stadium subsidies often overstate the economic impacts of sports facilities on local economies (Fort, 2003; Chapin, 2002; Baade, 2000; Noll and Zimbalist, 1997; Howard and Crompton, 1995). The exaggerated benefits found in promotional EIA often stem from one or more misapplications of sales, income or employment multipliers to measure the "ripple effects" of incremental spending induced by a new sports facility (Hudson, 2001; Baade 2000, 1997; Howard and Crompton, 1995). Moreover, when surveys of fan spending are carried out by consultants, the sampling procedures and research design are often systematically biased in favor of large economic impacts (Delaney and Eckstein, 2003; Fort, 2003). Howard and Crompton (1995) and Hudson (2001) find that the most common and most significant oversights are (1) the inclusion of spending by local spectators, (2) failure to exclude *time-switchers* and *casuals* from the spending estimates, (3) the application of multiplier values taken out of context and (4) the use of a sales multiplier (which tends to be the largest) to indicate the income or employment benefit to local residents.

Before a multiplier effect can be gauged the initial, direct impact of fan spending that is induced by a new sports facility must be estimated. A common method used by consultants to gauge the spillover effects of fan spending is the distribution of paper surveys to fans at the stadium (Delaney and Eckstein, 2003; Chapin, 2002; Crompton,

1995). While survey research can be an effective and reliable method of studying the spending patterns of a group of people, various measures must be taken to ensure that a representative sample of respondents is taken and that the conceptual object of interest, visitor fan spending, is effectively isolated and measured. While there are other important methodological considerations, these appear to be the most common sources of oversight in promotional survey research (Delaney and Eckstein, 2003; Hudson, 2001; Noll and Zimbalist, 1997; Howard and Crompton, 1995).

A study conducted by Arthur Anderson surveyed fans at Philadelphia Phillies baseball games and asked about their place of residence, their means of transportation to the game, where they worked and how much they spent on various items before and after the game (Anderson Study, 1997, qtd. in Delaney and Eckstein, 2003, p. 35-37). At five games, a total of 1,652 responses were obtained, from which the consultants found that fans spent an average of $23.22, not including parking. This figure was multiplied by the total annual attendance in order to estimate the impact of induced spending in the local neighborhood. Since the details of the sampling procedure in the Anderson Study were not provided (Delaney and Eckstein, 2003, p. 36) one can only make a best guess as to the methods that were used. A likely scenario is that surveys were handed to fans on their way in the stadium and while many simply threw it away, some chose to respond. Bias is introduced since fans with certain characteristics may be more likely than others to respond (Babbie, 2002). Tourists, in particular, who are likely to spend more before and after the game, may be more likely to respond to a survey, thus biasing the spending total upwards.

A more serious flaw in the Philadelphia impact study may have been its inattention to the amount of persons for which each spending total was reported. For example, Delaney and Eckstein (2003) point out that since the survey included questions about place of work, it may have been targeted at adults and thus the proportion of children at the stadium remains unknown while the spending reported by adults likely includes that of their children (p. 37). Multiplying the average fan spending figure by total attendance exaggerates spending since children may be double counted or even triple counted.

However, even these oversights are minor compared to the most frequent and egregious of the assumptions made by promotional studies. As discussed previously in this chapter, the spending of local spectators at the new arena replaces entertainment spending they would have done elsewhere in the local economy. In most cases, economic benefits from fan spending can only be expected when such spending is done by fans who are visiting the local jurisdiction to attend the sporting event. In the case of a replacement facility, non-local fan attendance at the new arena must be compared to that of the old arena and the difference, if positive, may impart economic benefits on the host community (Rappaport and Wilkerson, 2001). Thus, economic impact studies of existing or proposed studies must be designed to isolate the spending of non-local fans, in addition to accurately estimating average spending.

A study commissioned by the proponents of a new baseball stadium in Phoenix, Arizona based their impact findings on the spending of all fans expected to attend the new facility in a given year (Pollack Study, 1998). This is problematic since more than 60 percent of Arizona's total population resides in Maricopa County, in which Phoenix is

located and whose residents were taxed to raise funds for the new ballpark (Delaney and Eckstein, 2003). The local jurisdiction in the case of Phoenix is so large that it is extremely unlikely that the Diamondbacks will generate a significant non-local fan base.[17] Most of baseball fan spending in Phoenix therefore represents a realignment of leisure spending rather than a net benefit to the local economy – a crucial point overlooked by the Pollack Study. The same oversight was repeated in an impact study the following year in nearby San Diego: the spending of local fans was included in the final impact estimate, which projected the creation of 5,000 jobs and $600 million in annual benefits from spillover spending (Delaney and Eckstein, 2003, p. 147).

Analysis of the impact of a new downtown replacement arena in Sacramento forecasted about $90 million in annual benefits to the City after accounting for the anticipated sales revenue from the spending of all fans at the stadium and the surrounding neighborhood (Sacramento Study, n.d.). The authors of the study also included in their EIA estimates of anticipated investment by public and private sector entities that could be attributed to the presence of the new arena. However, they do not consider the value of the sacrifice of alternative investments or the displacement of local residents leisure spending at other local venues and at the existing arena, hence they overstate the direct spending impacts that the investment in a new arena has on the local economy (Sacramento Study, 2002).

Ryan (2005) forecasted a 7 year economic windfall associated with the NFL's New Orleans Saints of $3.64 billion by focusing on the "direct spending that would be lost to the

[17] Given that Arizona contains few metropolitan areas that are separated from each other by long stretches of desert that can be very hot in the summer during baseball season, it is unlikely that Phoenix can attract a significant portion of the 40 percent of the state population that do not already live in the city (Delaney and Eckstein, 2003).

state's economy if the team were to leave" (p. 13). By framing his research in this way Ryan considers the total economic activity related to the football team and the stadium as a loss. Instead, only non-local spending induced by the facility should be considered a loss since local fans will likely find other entertainment venues in which to invest their time and money. Moreover, Ryan reports only the benefits of the Saints stadium, thus failing to consider a number of costs that subsidizing the sports facility imposes on local taxpayers. Promotional studies like these distort the economic reality of professional sports by failing to reduce the initial direct spending by the amount the represent a realignment of spending on entertainment in the local economy. These mistakes are later compounded when multipliers are applied and benefits are projected into the multi-millions and billions.

Even when measures are taken to isolate non-local fan attendance, a portion of the substitution effect may remain unaccounted for. Similar to local spectators, *time-switchers* and *casuals* would have spent their money elsewhere within the local economy had it not been for the sporting event and their spending should not be considered a contribution to the local economy (Howard and Crompton, 1995; Crompton, 2001). *Time-switchers* are spectators that had been planning to visit the community but altered the timing of their travel plans to coincide with the sporting event. *Casuals* are those non-local fans who were drawn to the area by other local attractions but decided to spend their money at the arena instead (Howard and Crompton, 1995, p. 75). These fans are difficult to distinguish without conducting original research that asks spectators about their place of residence and reasons for attending the sports facility (Howard and Crompton 1995). None of the promotional studies mentioned above included questions designed to capture fans' motivations for attending the sports facility. However, in the absence of such data, a

few independent academic analysts have attempted to account for time-switchers and casuals by simply reducing the estimated proportion of non-local fans to a more conservative figure, taking into consideration the context of the local tourism market (Baade, 1997; Baade and Matheson, 2000; Crompton, 2001; Hamilton and Kahn, 1997;).

Once the direct spending is estimated as accurately as possible, the appropriate multiplier must be chosen and applied. Often in EIA researchers will employ a multiplier value derived by surveying the methods used in other studies (Hudson, 2001; Howard and Crompton, 1995). Multiplier values for sales, income or employment are not easily interchangeable between one local economy and another. As mentioned above, the size of the multiplier depends on the characteristics of the local economy. While the range of a multiplier value may vary less for some sectors of the economy, in others the range is widely divergent according to the local context (Fort, 2003). In addition, the size of the local economy is important as larger communities allow dollars to pass through more rounds of spending before being exhausted or lost beyond the local jurisdiction (Fort, 2003; Hudson, 2001; Howard and Crompton, 1995).

Many EIA present their findings in terms of increased sales by using a sales multiplier. However, the sales multiplier tends to be larger than the income or employment multiplier since it reflects the greater number of transactions that occur among local businesses compared to those of residents or workers (Hudson, 2001; Howard and Crompton, 1995). Fulton's (1988) analysis of tourism in Galveston finds that the same amount of money spent in retail shopping generates $1.2 million in new sales but only $0.5 million in personal income. Furthermore, the sales multiplier is not useful since the appropriate focus of a study of the impacts of a public investment is the impact

of spending on household income or employment (i.e., the impact on taxpayers) (Howard and Crompton, 1995, p. 62).

Finally, the employment multiplier is thought to be less reliable than sales or income multipliers since it rests on the assumption that the labor force is fully utilized (Zimbalist, 2000; Howard and Crompton, 1995). Should there be no unemployment then new (imported) investment could generate a net increase in the number of jobs and new workers would migrate to fill those positions, thus expanding the financial base of the local economy. This is an untenable assumption insomuch as unemployment, a characteristic of all metropolitan areas, presents the possibility of meeting new demands through greater utilization of local labor. This is particularly the case for "one-time" sports events like the Olympics or sports that have very few games and create few permanent jobs (Howard and Crompton, 1995, p. 61). Local labor can also be made to work harder with no corresponding increase in pay. However, insomuch as local labor markets are not optimally efficient (e.g., through hiring networks), the possibility remains that new demand will create new jobs and leave local residents underutilized (Hudson, 2001, p. 22-23).

As this discussion illustrates, additional contextual factors are brought to bear on the employment multiplier compared to the sales and income multipliers. Furthermore, this discussion builds on our understanding of revenue leakage and the substitution effect and reveals the extent of methodological oversight in promotional studies. Analysis of the multiple effects of new spending must consider only the sales and tax revenue that is generated by non-local fans and can be expected to remain and re-circulate throughout the local economy. Recent studies conducted by independent scholars have utilized the

concepts discussed above to measure the magnitude and significance of the economic impacts of sports facilities on local economies. The next section reviews the findings and insights of this recent research.

Comparative Research on Stadium Impacts

A review of the literature on the economic impacts of sports facilities reveals three basic approaches. The first compares economic activity in cities with and without professional sports teams and attempts to isolate the team effect by controlling for other factors that affect economic activity in a city (Baade, 1994; Rosentraub, 1994; Walden, 1997). The second and more frequent approach is also comparative, but observes cities before and after they acquired a new team or a new stadium, similarly controlling for other growth related variables (Santo, 2005; Austrian and Rosentraub, 2002; Richardson, 2002; Nelson, 2001; Coates and Humphreys, 2001, 1999; Baade, 2000, 1996; Baade and Sanderson, 1997; Rosentraub, 1997, 1994). The third approach is the cost-benefit method which attempts to account for full array of costs and benefits that are generated by a professional sports facility in order to measure the value added to the local community in terms of income, jobs, or other measures (Rappaport and Wilkerson, 2001; Baade, 1997; Hamilton and Kahn, 1997).

Baade's (1994) study of the growth of per capita personal income in 48 metro areas from 1958 to 1987 finds no significant difference between metro areas with major league teams and those without. Using a similar research design, Walden (1997) finds a negative relationship between economic growth and the presence of a stadium. Baade and Sanderson (1997) took a different approach to examining stadium impacts on

employment and income by studying ten metro areas from 1958 to 1993 before and after they obtained new franchises. They found that adding a professional sports team or stadium to a city's economy realigns entertainment and recreation spending rather than adding to it. Accordingly, no new jobs are created and in many cases, jobs are lost and wages decline (Baade and Sanderson, 1997, p. 109).

Coates and Humphreys (2001, 1999) also find that the presence of professional sports franchises reduced the level of per capita income in metropolitan areas while increasing the number of jobs. Their analysis focuses on the relationship between sports facilities and real per capita personal income in 37 standard metropolitan statistical areas in the U.S. from 1969 to 1994 and controls for factors not related to the sports industry that may explain changes in per capita income. Their model demonstrates positive effects on employment and earnings in amusements and recreation but negative effects on employment in the retail sector, and on earnings in eating and drinking establishments and hotels (Coates and Humphreys, 2001). According to Coates and Humphreys (2001), "the negative effect of sports on earnings of employees of restaurants and bars, and on employment in Retail and Services supports the idea that sports reduce real per capita income in cities through both substitution in private spending and through the creation of new jobs which pay less than the average prevailing wage" (p. 16).

On the other hand, the research of Rosentraub (1997, 1994), which has also used a comparative approach to studying employment and income growth, singles out Indianapolis as a unique and contrasting case that illustrates the potential for new stadiums to benefit host communities when constructed in the right context. Rosentraub's (1994) analysis of the impact of the RCA dome in Indianapolis in the 1980's revealed a

significant difference between wage increases there compared to other mid-western cities that had not constructed a stadium. While Rosentraub's (1997, 1994) overall findings suggest that the acquisition of sports facilities had an insignificant and sometimes negative impact on employment and urbanization, Indianapolis' use of sports events and facilities yielded mixed but slightly positive results. Indianapolis is the one city in Baade's (1994) research that evidenced a statistically significant impact on the city's real per capita growth in conjunction with the relocation of a stadium.

The construction of the RCA Dome in the 1980's was part of an integrated sports-development strategy, including hosting two professional sports franchises, several amateur teams and national and international sports events, in conjunction with a downtown redevelopment initiative consisting of many non-sport, recreation and entertainment venues (Rosentraub, 1997, 1994). Rosentraub (1994) found that the goals of the redevelopment program were partially met since the rate of suburbanization in Indianapolis slowed considerably compared to other cities. At the same time, the slightly positive job growth was insignificant as sports were too small a component of the local economy to have a significant impact (Rosentraub, 1994).

In a more focused study, Austrian and Rosentraub (2002) compare four cities and re-examine whether the integrated stadium-downtown redevelopment strategy was successful in improving the central city's share of regional jobs and residents. While the rate of job loss to the suburbs slowed substantially for all four cities over this period, they could find no causal link between the sports facilities and the location of jobs (Austrian and Rosentraub, 2002, p. 556-558). Zimbalist (2000) finds that most of the employment growth in Indianapolis was in low-wage occupations in the sectors of the economy

related to spectator sports and Indianapolis's share of the total county payroll actually declined from 1977 to 1989. Thus, while there seems to be potential for net job creation, new jobs appear to be unable to positively impact income levels.

Nonetheless, the research of Baade (1996, 1994) and Austrian and Rosentraub (2002) represents preliminary evidence of the importance of context for the economic impact of professional sports facilities. Nelson (2001) reviews the data and findings from each of these studies and finds a pattern. In at least half of the cities in which Baade detected a positive association between MSA income share and the acquisition of a professional sports facility, the new facility was located in a central business district (CBD). By contrast, in five of eight cities exhibiting negative associations between MSA income share and stadium acquisition, the facilities were built in the suburbs or outside of central city neighborhoods (Nelson, 2001).

Nelson (2001) follows up his meta-analysis with original research in which he estimates the effect of the location of sports facilities on regional income share for 26 metropolitan areas. Controlling for demographic and economic factors that influence MSA wealth, he finds that facilities located in a CBD are positively associated with regional income share and facilities in other locations, especially in suburban locations, are negatively associated with regional income share (Nelson, 2001). In addition, Nelson (2001) finds evidence of positive agglomeration effects for sports facilities located in a CBD compared to other locations. That is, the greater the number of stadiums in a CBD, the greater the positive effect on regional income share. The same is true for the negative effect of non-CBD facilities on regional income share (Nelson, 2001).

Santo (2005) takes the same approach as previous researchers in examining income and employment impacts from sports stadiums, but like Nelson he recasts the analysis in the recent context of increasingly urban location preferences for the construction of professional sports facilities. Focusing on stadiums built between 1984 and 2001, Santo (2005) hypothesizes that

> a retro-style ballpark in a downtown or retail setting is likely to attract visitors from a wider area than its more utilitarian suburban counterpart, and is likely to induce longer stays and greater ancillary spending. If so, it is plausible that the new generation of sports facilities would have more favorable economic impacts than their predecessors. (p. 181)

Santo estimates two regression equations. The first one examines the impact of sports-related variables on aggregate MSA income in the region. The second equation examines the impact of the same explanatory variables on the MSA's share of the region's income. The predictor variables include the MSA's population and a trend variable accounting change in time, in addition to variables indicating the renovation or construction of a baseball or football stadium and the presence of a baseball or football franchise (Santo, 2005). The results of the second equation, which is better able to control for regional growth trends, sheds light on the importance of context for the economic impacts of sports facilities. Santo (2005) finds evidence that the choice of location for a new stadium affects the magnitude of the return from the investment. The six cities for which the presence of a new football or baseball stadium is significantly positively correlated with regional income share – Atlanta, Denver, Jacksonville, Seattle and Tampa

– all represent cases in which sports facilities were built in a downtown or central city environment (Santo, 2005, p. 188).

While these findings do seem to support Santo's assertion that context matters, his use of the term context is unclear. By context Santo seems to be referring to two variables which were not emphasized in previous research: the location of new stadiums and whether a sports facility is being constructed or renovated to attract a new team or to retain an old team. Thus, his findings support his hypothesis that stadiums built for *new teams* locating to *central business districts* have the most potential for significant positive economic impacts on MSA's relative to the region.

Conventional logic would seem to support the findings of Santo (2005) and Nelson (2001), as adding a professional sports franchise to an area of concentrated commercial and retail venues would enhance the likelihood that the team generates additional new spending in that area, certainly more than would take place at suburban facilities surrounded by parking lots. However, like Austrian and Rosentraub (2002) previously, Santo and Nelson are not able to isolate the impact of the sports stadium from the overall effect of the redevelopment strategy of central business districts. Since sports facilities represent only a tiny fraction of an area's economy, its growth impact independent of an area's economic development initiatives is likely to be negligible (Zimbalist, 2000; Rosentraub, 1997). In addition, in his reply to Nelson, Wassmer (2001) argues that a new team is likely to be attracted to a city with a strong economy, hence offering a profitable media market (p. 269-270). Other researchers have found that team owners are wising up to the fact that in young, growing cities it is easier to raise public funds for new stadiums (Delaney and Eckstein, 2003). If the years following the

acquisition of new teams and stadiums in downtown locations exhibit significant increases in economic activity, this may reflect the wise business strategies of team owners and league cartels rather than impacts caused by the sports facility.

The comparative research on stadium impacts has virtually unanimously found negligible or negative impacts from sports facilities. Where positive effects have been detected, additional empirical precision is needed to disentangle the effect of sports facilities from other factors. While comparative research has approached the study of stadium impacts from a more macro perspective, cost-benefit research takes a closer look at the ways in which publicly funded sports facilities impart positive or negative effects on a local economy.

Cost-Benefit Analysis of Stadium Impacts

The cost-benefit method of measuring economic impacts has most frequently been used (or misused) in promotional studies, as described above. Few independent scholarly attempts have been made to gauge net economic impact by accounting for the wide range and complex nature of the "real" (Chapin, 2002) inputs and outputs involved in stadium acquisition. However, three examples are available in the independent, academic literature on stadium impacts.

Rappaport and Wilkerson (2001) and Baade (1997) use a prospective impact approach, in which they estimate future costs and benefits from the inputs and outputs associated with the construction and operation of a new stadium. While the first pair of authors focus on the present net value of new jobs and tax revenue, Baade (1997) compares the return on the public's investment in a stadium to other possible

investments. Hamilton and Kahn (1997) carry out a retrospective cost-benefit analysis of Baltimore's new stadiums. All three studies consider the same inputs and outputs in their assessment of the economic costs and benefits of pro sports facilities. As inputs, they simply calculate the monetary total of various public resources invested into the construction and operation of the sports facility. As outputs, they consider the value of importing jobs and tax revenue through incremental spending by fans that reside outside of the host MSA (Baade, Rappaport and Wilkerson) or the state (Hamilton and Kahn).

Other economic impact measures (e.g., wage levels) may be substituted for job creation, but most of the recent scholarly research on stadium impacts has argued that job creation is the best gauge of economic impact (Baade and Sanderson, 1997; Coates and Humphreys, 2000) and some have demonstrated how the impact from new jobs can be interpreted as an impact on home values (Hamilton and Kahn, 1997; Siegfried and Zimbalist, 2000). Moreover, analysis of the relationship between new stadiums and local wage levels (as opposed to job creation) has found insignificant and in some cases negative effects (Baade and Sanderson, 1997; Zimbalist, 2000).

Rappaport and Wilkerson (2001) develop an approach to estimating prospective employment and tax revenue impacts that is generally applicable to each professional sports league. They suggest that net job creation can be estimated in a straight-forward manner by applying a conservative multiplier to number of observable new jobs associated with the stadium's operation (Rappaport and Wilkerson, 2001, p. 64). The construction of the stadium also creates jobs but research has demonstrated that these substitute other employment in the construction industry and produce an insignificant impact (Miller, 2002). Net jobs created can be multiplied by the estimated value of each

new job to the metro area economy to determine the economic benefit from job creation (Rappaport and Wilkerson, 2001, p. 64).[18]

Annual tax revenue benefits are determined by considering average visitor fan attendance and typical spending by these fans on admissions, concessions, novelty items and spending in the environs of the stadium (Rappaport and Wilkerson, 2001). Rappaport and Wilkerson (2001) convert the annual benefits from new jobs and tax revenue to net present values and find that the estimated value of the combined employment and tax benefits from a sports facility hosting a typical NBA team is about $29 million (p. 68). Compared to typical public outlays in recent years ranging from $150 to $250 million, the projected economic benefits from new stadiums do not outweigh the costs (Rappaport and Wilkerson, 2001, p. 70).

Baade's (1997) prospective impact analysis of a proposed stadium for the Seattle Mariners framed the issue in terms of the *return on equity* of the public's investment. As such, he measured outputs in terms of monetary returns from incremental economic activity and did not convert "new money" into new jobs. Baade (1997) argues that from the "public-interest perspective," the best evaluation of a proposed sports facility is the return on that investment compared to the return from an investment of the same magnitude in a different sector of the economy, such as U.S. Treasury Bonds, the leisure time industry and the gaming industry (p. 6-7).

[18] Rappaport and Wilkerson (2001) survey the findings of research that uses quantitative techniques to estimate economic benefits from job creation induced by a new pro sports facility. The aggregate annual income benefit to local workers is found to range from $0 to $1500. In other words, if a new job is worth $1500 to a local workforce, then 100 jobs created by a new arena for a workforce of 1 million would result in a wage increase of 15 cents ([1500/1000000]*100).

Baade (1997) carried out his analysis without knowing what arrangements would ultimately be agreed upon in the negotiations over the proposed stadium. As a result, he considered the best case scenario and the most likely scenario in light of the perceived bargaining strengths and weaknesses of local officials in the particular case. The proposed taxpayer investment in the new stadium was about $267.8 million, coming from a local sales tax credit, local restaurant and bar taxes, admissions taxes, and car rental taxes and the annual return from incremental local sales tax revenue, incremental rent paid at the stadium, and the county's share of other stadium revenue was estimated at about $3.7 million (Baade, 1997, p. 7). The estimated revenue increment from the spending of non-local fans was $2.7 million assuming peak attendance and $1.4 million assuming a more realistic attendance figure. Baade (1997) found that in the optimistic scenario Seattle taxpayers return on equity in their investment in a new stadium would be 1.9 percent, far below returns from alternative investments in the gaming industry (11.5 percent), the leisure time industry (13.5 percent) or U.S. Treasury Bonds (5.85 percent).

While the analyses of Rapport and Wilkerson (2001) and Baade (1997) are prospective in nature, Hamilton and Kahn's (1997) case study of Baltimore's recently built stadiums is retrospective. Hamilton and Kahn (1997) attempted to account for all the measurable benefits of the Camden Yards investment in Baltimore, including job creation and tax imports, by reducing the amount of new revenue to account for the realignment of local spending and the leakage of revenue outside the local economy. First, they determined the magnitude of the incremental expenditure due to the facility. Second, they estimated the number of jobs created directly by the incremental expenditure. Third, they determined the appropriate multiplier with which to calculate the total employment

effect. Finally, they estimated the effect of this induced employment on metro area wages and property values (Hamilton and Kahn, 1997).

To determine the incremental expenditure attributed to the new stadium Hamilton and Kahn had to calculate the increase in fan attendance caused by the new facility. Using data on the number of visitor fans collected at the stadium, they attribute 71 percent of the attendance increase at the new stadium to new non-local fans (Hamilton and Kahn, 1997, p. 260). They calculated that the difference in the average basic gate receipts and other stadium revenues between the four years before and after the move to the new stadium attributable to non-local fans was about $16 million (Hamilton and Kahn, 1997, p. 262). Using data from a stadium fan survey, Hamilton and Kahn determined the total "before-and-after" game (outside the stadium) spending by non-local fans and the proportion of the non-stadium spending that was done by new[19] non-local fans. The total incremental visitor fan expenditure is estimated at $41 million (Hamilton and Kahn, 1997, p. 263-264).

Hamilton and Kahn (1997) theorize the dynamics by which a new stadium impacts economic activity in the surrounding environment. The demand for labor rises corresponding to the net increase in local exports caused by new non-local fan spending, as discussed above. Worker wages increase as the supply curve of urban labor rises in response to greater demand. As more workers are attracted to the locality, the cost of living rises mainly through increasing property values. Thus, "the entire present value of the economic benefit of an increase in exports (an increase in city size) is captured by local property owners; the present value of the wage increase is capitalized into house

[19] New refers to the number of non-local fans at the new facility above those that attended games at the old facility.

values" (Hamilton and Kahn, 1997, p. 264). By contrast, the wage increase of people renting their homes is expended in higher rent.

Assuming that half of the incremental expenditure in Baltimore is spent on local labor,[20] the incremental non-local expenditure in Baltimore is directly responsible for 460 initial new jobs and a total of 550 jobs after accounting for the "ripple effects" of the incremental spending at the stadium (Hamilton and Kahn, 1997, p. 266).[21] To gauge the effect of the sports stadium on wages and property values, the authors employ Rosen's (1979) model, in which the annual earnings of workers is a function of a index of metro area characteristics, including city size and amenities (Hamilton and Kahn, 1997, p. 31). Hamilton and Kahn (1997) find that an increment of 500 jobs raises the average metropolitan area workers' wage by 40 cents (p. 267). As the authors argue that wage increments are capitalized into property values, they calculate that at 1.6 workers per household and a rent-to-home value ratio of .10, the construction of the new stadium raised house values by $6.50 each. In terms of employment impact, the aggregate annual benefit to a workforce of 1.2 million was found to be $480,000 (Hamilton and Kahn, 1997, p. 267). Comparing the various subsidies to net benefits from the incremental fan expenditure and the annual benefit to the local workforce, Hamilton and Kahn (1997) estimated that the new ballpark resulted in a net cost to taxpayers of $11 million, or $14.70 per year per metro household (p. 268).

[20] From U.S. Department of Commerce data they find that labor's share of the national economy is about 73 percent but they reason that the proportion of income induced by professional sports that flows to local labor is likely to be smaller.

[21] Hamilton and Kahn use a conservative employment multiplier of 1.2. Typical employment multipliers used by governmental economic development agencies range from 1.8 to 2 (Hefner, 1990; Baade, 1996; City of Miami "EIA" for selected projects 1996-2000). Several authors suggest that lower employment multipliers are more appropriate since most sports-related employment is likely to be part-time and temporary (Howard and Crompton, 1995).

Review of the literature reveals a general consensus among scholars regarding the economic impact of professional sports facilities on local economies. First, the majority of the findings suggest that the economic impacts are insignificant. Second, in many cases the impacts of sports facilities are negative in terms of fiscal losses for the local jurisdiction, a decline in the income of local workers and/or a decline in the local economy's share of regional or state income. The impact of the American Airlines Arena in Miami is unlikely to diverge considerably from the findings of other research. The next chapter presents the methods for a cost-benefit analysis of the AAA.

Chapter IV
Methodology

Analysis of the costs and benefits of the AAA is comprised of two parts. The first examines the net fiscal cost or benefit to Miami-Dade County after considering the various public subsidies provided for the construction and operation of the arena and the revenue from the AAA that benefits the local jurisdiction. The way the arena generates economic benefits for the county is by returning a share of the revenue at the arena to the county (which would not occur under normal business conditions) and by generating incremental revenue from spending by new non-local fans. The methods for this calculation and the sources of such data are described. Particular attention must be devoted to the geographic and commercial context of fan spending to properly estimate the non-local fan base. The second part examines the employment impact of the AAA by accounting for the dynamics in which incremental revenue attributable to the presence of the AAA translates into new employment opportunities for local workers. The methods used to account for the substitution effect and revenue leakage are outlined and the methods used to estimate the number of jobs created by the incremental revenue is described. Finally, the limitations of this research are considered.

Input-Output Framework

The total subsidy provided for the AAA consists of direct and indirect payments guaranteed by the public-private contract but also from infrastructure investments and foregone tax revenue. An understanding of the public and private sector contributions to the new arena was gleaned from the various legal contracts between the county, the

Miami Heat, and Basketball Properties Limited (BPL), the arena manager, known collectively as the Related Agreements (1997). Information was also gathered from the Purchase Agreement (1997) between Miami-Dade county and the City of Miami, which secured the purchase of the waterfront land (Maritime Park) on which the arena was built and from various local and state government websites. Information on infrastructure expenditures was gleaned from newspaper sources and from the City of Miami's list of Major Use Special Projects (MUSP, 2005).

The direct public sector contribution to the AAA comes from direct payments made to the arena manager to offset the cost of daily operations and municipal services. Infrastructure investment made to facilitate arena traffic includes roadway improvements and the construction of a nearby parking garage which serves downtown workers and students, as well as arena patrons. The arena manager receives an annual sales tax rebate from the state which is paid independent of taxes collected on arena sales. The purchase of the land on which the arena is built and the debt service on the old Miami Arena are also part of the subsidy. The final source of the public's contribution to the AAA comes in the form of property tax revenues that will not be collected by the relevant city of Miami taxing authorities, including the board of education and the children's trust, whose levies are the largest (Miami-Dade Property Appraiser, 2005). [22] The total millage rate is 26.74, which is collected on every $1000. The foregone property taxes are calculated by

[22] Since the Maritime Park property has always been publicly owned, property taxes have never been collected on it. Thus, it might seem unreasonable to consider the foregone revenue from property taxes a public subsidy for the AAA project. However, the property is privately used and the arena is an exclusive building, restricting public access to a greater degree than parks, libraries or museums. Furthermore, insomuch as traditional economic development strategies typically provide subsidies for companies building on privately owned land, the foregone tax revenue from the Maritime Park property accounts for the value of an alternative form of economic development on the same site.

applying this rate and assuming a conservative rate of property value appreciation of 15 percent.[23]

Miami-Dade County may directly receive revenues from the arena through the revenue sharing agreement with the arena manager as well as a surcharge on parking for basketball games. To estimate the county's share of revenues the arena's net income over 30 years must be estimated. However, this is extremely difficult given the variability of most of the arena's sources of income and expenses. Nonetheless, various scenarios can be considered and applied to the largest sources of income and expenses to determine a range of possible outcomes for revenue sharing with the county. Audit reports for the first five years of the arena's operation were obtained, thereby revealing the arena's sources of income and expenses as well as the county's share of the arena's net operating income thus far. Included in the arena's net income is a use fee paid by the Miami Heat, retail fees paid by arena tenants, revenue from the sale of luxury suites, revenue from the sale of the arena naming rights, revenue from parking, concessions and arena restaurants and other smaller sources income and expenses related to operations and maintenance. The largest revenue stream generated by the arena, admission ticket receipts, is captured fully by the team. The authors' estimates of various revenue streams were adjusted according to the figures for the first five years of the arena's operation given in the audit reports. Gross income for the arena was estimated using data on attendance, the cost of concessions, luxury seating, parking and the other revenues listed above. Net operating income for the arena was estimated by accounting for expenses, including arena (not

[23] The value of the property has increased from $38 million in 1998 to $133.6 million in 2005 (Miami-Dade Property Appraiser, 2005), which is reflects annual appreciation of about 19.5 percent. Thus, 15 percent appears to be very conservative rate.

Miami Heat) payroll, operations and maintenance, and debt service on the corporate bonds used to finance the arena construction. The team's net income was estimated as well in order to infer the value of the new facility to the team compared to its value to the public.

Attendance data for the American Airlines Arena was gathered from multiple sources, including a website dedicated to professional basketball statistics,[24] Fox Sports and ESPN. Information on average spending at basketball games was provided by staff at BPL and estimates from Fox Sports, and Team Marketing Research (TMR). Before-and-after game spending was estimated using price data from TMR and data from other cost-benefit research (Rappaport and Wilkerson, 2001; Hamilton and Kahn, 1997). Spending at other events at the arena were estimated using data from the AAA website and from an impact study of a proposed downtown arena in Sacramento, California (Sacramento Study, n.d.). Estimates of "other expenses" for the Miami Heat were gleaned form Forbes magazine's list of individual NBA team valuations for the 2000-01, 2003-04 and 2004-05 basketball seasons and inferred for other seasons based on changes in payroll. Payroll expenses were obtained from baskteballreference.com, USA Today magazine and Sports Business News. Estimates of revenue from sponsorship, advertising, television network agreements and luxury seats were adopted from various newspaper sources and a personal communication with a researcher and staff writer at Forbes Magazine.

An important methodological step precedes the analysis of employment impacts: the definition of the local geographic unit. In this case, the definition of "local" has important implications for the proportion of fans considered to be non-local and thus

[24] See www.basketballreference.com

implications for the estimated increment in visitor fan attendance at the AAA. Moreover, in light of the theories of Santo (2005) and Nelson (2001) which predict that downtown sports facilities impart a greater economic impact, the commercial and planning context of the AAA was considered. The geography of southeast Florida tourism and the commercial characteristics of the arena's environs were also considered in order to estimate the magnitude of visitor fan spending induced by the AAA.

Geographic Considerations

The magnitude of economic impact depends heavily on the geographic boundary of analysis. At the national level all spending on professional basketball is a substitution of spending at other venues; that is, it crowds out spending elsewhere in the country (Noll and Zimbalist, 1997). At the local level, however, this need not be the case. Spending in Miami-Dade County may replace spending in Broward or another county. If fans from another county in Florida spend more money in Miami-Dade than they would have otherwise spent closer to home, then the revenue from their spending represents a gain for Miami-Dade and a loss for the other county.

As this analysis purports to measure the impact of the AAA on local taxpayers, the logical definition of "local" would be Miami-Dade County, implying that non-locals reside outside of Miami-Dade. Defining the local/non-local boundary along county lines suggests that the spending of basketball fans from other counties, such as Broward, is "new money" and thus beneficial for Miami-Dade county. The geographic perspective on fan spending reveals that this is not the case in southeast Florida. It cannot be assumed that the spending of fans from Broward County substitutes spending they would have

done in their home county rather than Miami-Dade. Given the importance of Miami-Dade as a recreation destination, in particular the cities of Miami and Miami Beach, it is plausible that the spending of fans from other counties at the AAA crowds out spending they would have done in Miami-Dade anyway. This is likely to be true for fans from the Ft. Lauderdale area, Miami's northern neighbor, who have easy access to Miami-Dade's downtown and ocean-front venues.[25] Most of Broward-based fan spending is therefore likely to represent a realignment of spending in Miami-Dade.

One might also argue that when the Florida Panthers of the National Hockey League (NHL) moved from the Miami Arena to Broward's Office Depot Center (ODC) they took their hockey fan base with them. In this way, some part of Broward's Miami Heat fan base that would represent visitor spending if we drew the local/non-local boundary at the county line is offset by hockey fans from Miami visiting the ODC. In economic terms, Broward and Miami-Dade counties' subsidies for professional sports facilities have generated positive externalities for each other. Even though Miami-Dade taxpayers have subsidized Broward-based fan consumption benefits from the Miami Heat, Broward taxpayers have subsidized the consumption benefits of Miami's hockey fans. The substitution effect of Broward-based fan spending at the AAA and the offset of these fans by Miami-based hockey fans suggests that the majority of Broward-based fan spending should not be counted as new money. With a population of 1.7 million in 2003 (American Community Survey [ACS], 2003), Broward likely supplies the second-greatest number of AAA patrons (after Miami-Dade). Thus, the reduction of the total

[25] Broward residents' commute to downtown Miami or Miami Beach is shorter than that of fans driving from the southern parts of Miami-Dade County (e.g., Homestead).

estimated fan spending amount by the proportion attributable to Broward-based fans is substantial.

The third largest source of AAA patrons is likely to be fans from Palm Beach County, a population of 1.2 million in 2003 (ACS, 2003). Palm Beach is far enough away so that many of its basketball fans are not as likely to do their entertainment spending in Miami-Dade in the absence of the AAA. Palm Beach fan spending is therefore assumed to represent new money for Miami-Dade County. Insomuch as these assumptions overstate the impact of Palm Beach fans spending and understate the impact of Broward fan spending, these errors are thought to approximately offset each other.

On the other hand, there are reasons for defining local and non-local fans along county lines. Part of the hidden rationale for subsidizing the arena was to prevent Miami Heat and Carnival Cruise owner Mickey Arison from taking his business to Fort Lauderdale (Foreman, 2003). Broward would have gained two new professional franchises and at least a few of Arison's cruise ships and the corresponding benefits from increased tourism in the worst case scenario for Miami. Therefore, the most appropriate analysis should compare the impact of incremental visitor fan spending under both assumptions: (1) Broward fan spending represents a realignment of fan spending within Miami-Dade County and therefore only the spending of visitors from outside the Consolidated Metropolitan Statistical Area (CMSA) is beneficial; (2) the spending of all fans that reside outside of Miami-Dade County represents money gained for the county. In the absence of information indicating the proportion of AAA patrons that reside in Broward, in Palm Beach, or elsewhere, this analysis assumes that a considerable share of the Miami Heat's non-local fan base is from Broward because of its size and proximity,

with a somewhat smaller percentage residing in Palm Beach and the smallest slice from elsewhere in the state or country. Fifteen percent of fans at the AAA are assumed to reside in Palm Beach and an additional 5 percent in the rest of the state or country, for a total of 20 percent of AAA patrons that are thought to reside outside of the Dade-Broward CMSA. This figure is referred to as the CMSA-based definition of the non-local fan base. An additional 30 percent of Heat fans likely reside in Broward County; hence, 50 percent of fans are thought to reside outside of Miami-Dade County. This figure represents the MSA-based definition of the non-local fan base. These figures were used to estimate incremental revenue from non-local fan spending and the corresponding respective number of jobs created under each assumption.

Commercial Context and the Attendance Increment

A question remains to be answered regarding the extent to which the new arena has attracted incremental non-local fans above that which is accounted for by greater seating capacity. That is, is the new arena more attractive than the old one, thereby enticing more non-local fans? The commercial context in which the AAA was developed and the impact of the new facility on overall attendance rates provide clues with which to formulate a response to the last question.

The commercial context in which the facility was built suggests that it was not planned so as to attract tourists and other non-local visitors. As reviewed in chapter III, the economic impact of public-private partnerships to build sports facilities may be positively enhanced by a more carefully crafted development strategy (Santo, 2005; Nelson, 2001). The AAA in Miami is a case in which the new facility was not integrated

into a commercial context that would facilitate dramatic changes in visitor fan attendance and spending, despite being located in the downtown area. It is useful to consider this by way of a contrast. In Baltimore, Maryland, a new baseball stadium was built into the commercial and architectural fabric of the neighborhood's tourist destinations, resulting in a 70 percent increase in non-local fans (Friedman, Andrews and Silk 2004; Hamilton and Kahn 1997). Hamilton and Kahn (1997) describe the context in which the new facility in Baltimore was planned.

> The thinking among planners was that the Camden yards site would attract fans from throughout the Baltimore/Washington area both because of easy access and because of the other attractions at the Inner Harbor. The basic rationale for selecting the site was that the presence of multiple attractions would induce more attendance both at Orioles games and other downtown attractions than either could generate in the absence of the other. (p. 253)

The inner harbor in Baltimore was redeveloped into a thriving commercial and cultural center between the 1970's and the 1990's. By the time the new baseball stadium was built in 1992 the adjacent streets were comprised of a number of museums, historical parks and landmarks, restaurants, bars and other commercial and tourist attractions emphasizing the history and culture of the city (Friedman, Andrews and Silk, 2004). At the intersection of major interstate highways and the two major local rail systems, the location of the new facility was optimal for attracting non-local fans (Hamilton and Kahn, 1997). Moreover, other observers have noted that the new ballpark in Baltimore is structurally configured such that it blends in with the overall aesthetic quality of the Inner

Harbor, contributing to its success as a tourist attraction (Friedman, Andrews and Silk, 2004).

The case of the AAA in Miami is dramatically different. Miami's new arena was one of the first large-scale entertainment amenities to be added to central city and was not part of a long-term plan for downtown economic revitalization. Rather, sudden developments in local business relations and changes in the formal structure of local government stimulated public and private sector leaders to collaborate for the purpose of building a new sports facility with public funds (Foreman, 2003). The only commercial attraction that existed prior to the AAA's construction was Bayside Marketplace, an outdoor shopping and entertainment complex facing the bay. The other major nearby attraction is Parrot Jungle, built in 2003, which has been unable to generate profits in its first two years of operation. The trendy and upscale Bongo's Cuban Café is located on the waterfront side of the arena property and may attract a few fans interested in a drink and dancing after a game but is more likely to discourage non-local attendance because of its high prices. The adjacent Performing Arts Center is still under construction, while nearby many vacant and "blighted" properties remain as eyesores rather than tourist attractions. Furthermore, the explicit purpose of the new facility was to generate more revenue from luxury suites (virtually all of which are sold to locals), not attract visitors.

As mentioned before, no data is available that indicates the residential address of AAA patrons. While the precise proportion of non-local attendance cannot be determined, the sudden and early arrival of the AAA in the overall downtown development strategy suggests that at least in its first years of existence, the new facility does not attract non-local fans and generate spillover spending above that which occurred

at the former arena. Additional insight into the arena's popularity was gleaned from examining its impact on attendance at Miami Heat basketball games.

Table 2. Miami Heat Attendance Change and Win Percentage

Miami Heat Attendance and Performance				Attendance Change			
Season	Average Game	Percent of Capacity	Win Percent	Annual (Miami)	Since 1990 (Miami)	Annual (NBA)	Since 1990 (NBA)
2004-05	19,882	99.40%	72%	30.46%	1.52%	14.79%	33.03%
2003-04	15,239	76.20%	51%	-0.55%	1.04%	13.06%	1.97%
2002-03	15,323	76.60%	31%	-4.17%	-0.49%	11.90%	2.53%
2001-02	15,989	80.00%	44%	-3.34%	1.12%	12.45%	6.99%
2000-01	16,541	82.70%	61%	-4.12%	-0.55%	11.20%	10.68%
1999-00*	17,252	86.30%	63%	13.85%	0.79%	11.81%	15.44%
1998-99	15,153	99.70%	66%	1.04%	-2.21%	10.94%	1.39%
1997-98	14,997	98.70%	67%	-0.05%	0.23%	13.45%	0.35%
1996-97	15,004	98.70%	74%	1.49%	-1.01%	13.18%	0.39%
1995-96	14,783	97.30%	51%	1.23%	3.14%	14.34%	-1.08%
1994-95	14,604	96.10%	39%	-3.00%	2.96%	10.86%	-2.28%
1993-94	15,055	99.10%	51%	0.38%	1.16%	7.67%	0.74%
1992-93	14,998	98.70%	44%	0.22%	2.36%	6.44%	0.35%
1991-92	14,965	98.50%	46%	-0.29%	2.91%	3.98%	0.13%
1990-91	15,008	98.70%	29%%	0.01%	-2.84%	1.04%	0.42%
1989-90	15,006	98.70%	22%	0.41%	3.99%	3.99%	0.41%
1988-89	14,945	98.30%	18%				

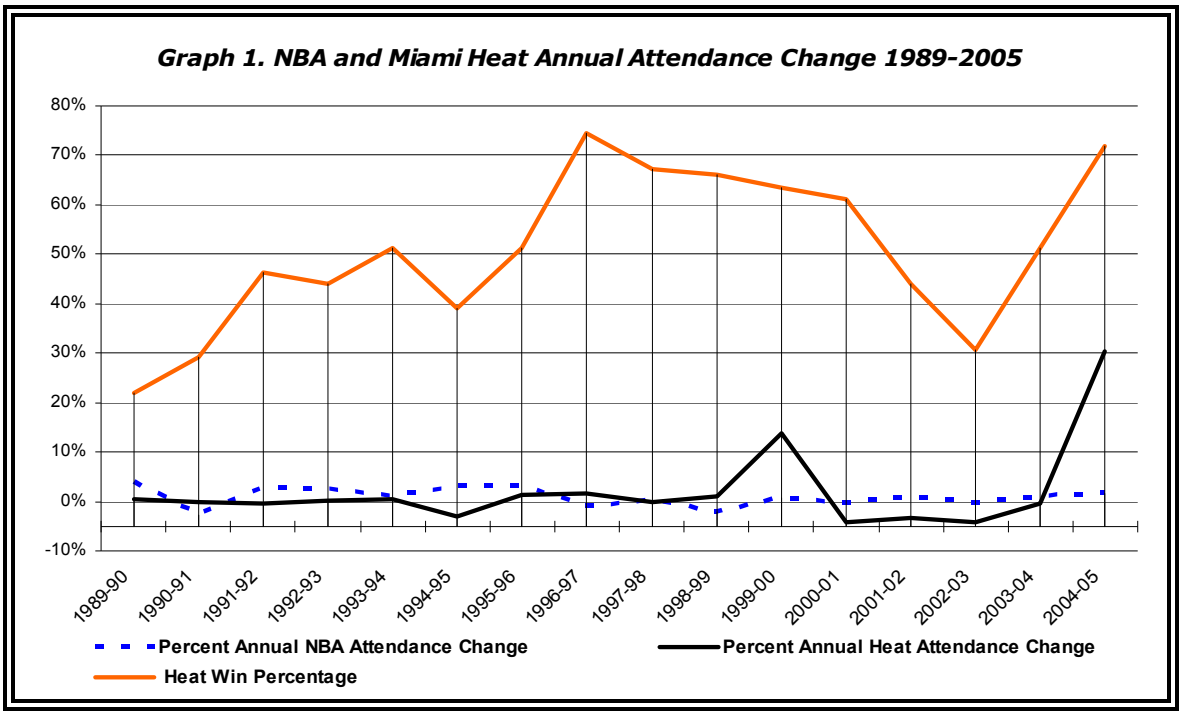
* In the 1999-00 basketball season a portion of the games were played at the Miami Arena, such that 192,841 fans attended Heat games at the Miami Arena and 514,484 attended games at the AAA.

If it were the case that the new arena had a positive impact on attendance rates independent of team performance or attendance trends throughout the league, then it would be reasonable to assume that the new arena was more attractive to basketball fans and may entice a greater proportion of non-local fans than the old arena. Table 2 presents the attendance figures and win percentage for the Miami Heat at the new and old arenas,

as well as average attendance for the NBA. Comparing the last four years at the Miami Arena with the first four years at the AAA,[26] total attendance increased by about 70,000 fans per year. However, ignoring 2005, the attendance increase shrinks to 37,979, or about 926 fans per game.

The 2003-04 basketball season was marked by the arrival of star player Shaquille O'Neal in Miami and an impressive team performance which carried the Heat to the playoffs for the first time in several years. The Heat built on their successful season in 2004-05, when they fell one game short of qualifying for the NBA Championship series. Graph 1 (below) illustrates that while there was a moderate increase in attendance at the new arena in 2000 when it opened, this novelty effect wore off by the next season, much earlier than is typical for new sports facilities (Coates and Humphreys, 2003). Throughout the 1990's the Miami Arena enjoyed near capacity attendance rates regardless of the team's win-loss record. With the exception of the brief spike in popularity following the move to the AAA, Heat attendance at the new arena seems to be related more to the team's performance than the move to the new arena or overall league trends.

[26] The 1999-00 season is excluded because attendance was affected by the team moving from the old to the new arena. While the 1998-99 NBA season was cut in half by labor disputes, attendance rates for the games that were played at the Miami Arena were apparently unaffected. However, this year is also excluded from the attendance comparison since annual attendance was substantially reduced.



The attendance trends indicate that the construction of a new facility is not the reason for the increase in attendance at the AAA compared to the Miami Arena. Rather, the greater number of patrons at the new facility is related to greater seating capacity and the recent success of the team. By contrast, the former arena seems to have attracted fans regardless of the team's record. Thus, this analysis assumes that the proportion of non-local fans at the AAA is the same as at the former Miami Arena. The total number of visitor fans increased in relation to the seating capacity of the new facility and is estimated as a proportion of actual total attendance at the AAA following the move.

Measuring Job Creation

As previously discussed, the basic way in which economic benefits accrue to a local metropolitan area is through the importation of professional sports consumption by

non-local fans (a rise in exports) (Rappaport and Wilkerson, 2001; Hamilton and Kahn, 1997; Baade, 1997). New jobs are created both directly through incremental non-local fan spending at the new arena and the surrounding neighborhood and indirectly by the county-wide ripple effects of such spending (Fort, 2003; Howard and Crompton, 1995; Noll and Zimbalist, 1997).

In the case of the American Airlines Arena, there are two basic sources of incremental revenue that may contribute to net job creation. The first is incremental revenue from sales generated because the new arena hosts more non-local fans than the old arena. As established in the previous section, the additional visitor fans are mainly accounted for by the greater seating capacity of the AAA. A portion of the incremental local income generated by non-local fan spending will be reinvested in the local workforce, thereby creating new jobs. The second source of incremental revenue is from taxes collected at the new arena which is re-spent locally by the county, also leading to new employment opportunities and income. Sales tax is the only source of tax revenue generated by the AAA. Miami-Dade County imposes a local sales tax rate of 1 percent and receives a portion of the state's tax receipts, collected as 6 percent of taxable sales. While the formula that determines the county's share of state tax receipts is not available, since 2000 the county has received between 12 and 13 percent of annual sales tax receipts for the state (Florida Sales Tax Receipts, 2000-2004). Thus, 13 percent is a reasonable, conservative (optimistic) estimate of the county's share of state sales tax receipts.

To isolate the sales and tax revenue that represents a gain for the county and that remains and re-circulates throughout the local economy, the revenue from the spending of local fans should not be considered (Baade, 2000; Noll and Zimbalist, 1997; Howard

and Crompton, 1995). Further, only non-local fan spending above that which would have occurred at the old arena represents new money for the county. Incremental revenue is estimated by subtracting the average annual spending of non-local fans over the first five full seasons of basketball at the new arena from the average of the last five full seasons of basketball at the old arena. Sources of revenue considered include gate receipts, estimated spending on parking and concessions and estimated spending outside the arena on retail shopping, food and entertainment.

Assuming that every third arena patron spends the listed 25 dollars for parking, the average parking cost per fan is $8.33. This estimate is quite generous since cheaper parking (as low as $5) is available, albeit at a greater distance from the arena, and since 1 in 3 may also be an optimistic estimate of the number of fans paying for parking (Rappaport and Wilkerson, 2001). TMR estimates that typical spending at an NBA game for a family of four, not including parking, consists of two beers, four soft drinks, four hot dogs or other food items, two event programs and two novelty items (TMR, 2004). Independent observers have suggested that the actual spending of fans at sporting events is much less (Rappaport and Wilkerson, 2001; Hudson, 2001). Accounting for the prices of these items at the AAA, this analysis assumes that the average fan spends $10 on concessions at the arena. Ten dollars at the AAA is enough to purchase at least one beverage and one food item.[27]

Visiting fans also spend money in the environs of the arena. Staff members at the nearest hotel to the AAA (The Holiday Inn) indicated that out-of-state fans attending Miami Heat playoff games in 2005 likely spent between $50 and $60, on average, during

[27] Based on data from TMR and information provided by a guest services staff member at the AAA.

their one night stay in the downtown area. Rappaport and Wilkerson (2001) estimate that average non-local fan spending at NBA games is $33 (p. 67), but their estimate also assumes a greater proportion of out-of-state fans than is the norm for the Miami Heat. Staff at the moderately priced Holiday Inn indicated that during the regular season (not including the playoffs) they host virtually no out-of-state fans. The vast majority of regular season visiting basketball fans are likely to be in-state and live within driving distance of the arena.[28] These fans are less likely to spend as much money in Miami as out-of-state fans since they may have eaten dinner at home or may not want to spend more money since they must pay for the fuel cost of their commute to and from the arena. Further, if they are not staying in a hotel and have to drive home late at night they may similarly choose not to stay in the environs of the AAA after the game. These various considerations suggest that average visitor fan spending in the case of Miami-Dade may be substantially less than the estimates of Rappaport and Wilkerson for the NBA overall. Thus, it is assumed that non-local AAA patrons spend an average of $20 before and after attending a basketball game in Miami-Dade. This accounts for the tendency of some fans to spend large amounts of money while others may spend nothing and drive home immediately after the game.

The AAA hosts other events in addition to professional basketball. However, it is not assumed that the AAA attracts more non-local fans to non-basketball events than the Miami Arena did since increased seating capacity (from 15 to 20 thousand) bears no effect on events that would not normally seat more than 12 thousand spectators, such as

[28] Dade, Broward and Palm Beach County are the only three large metropolitan populations in south Florida. While a small number of fans may drive from the Florida Keys to see Heat games, it is unlikely that a considerable proportion of Heat fans would come from outside the Tri-county area during the regular season.

concerts, the circus, ice shows, and the like. While the AAA generates considerable revenue from the spending of fans at non-basketball events, this is not likely to represent a significant increase from that which occurred at the former arena. Thus, it is assumed that no new money is imported through the spending of patrons at non-basketball events.

Incremental revenue from new spending creates local jobs as the rising demand for exports (reflected by the importation of sales and tax revenue) increases the city's demand for labor (Hamilton and Kahn, 1997; Zimmerman, 1997). To determine the number of new jobs created, the amount of revenue from the direct new spending that is re-spent on the costs of local labor was estimated. It is reasonable to expect that labor's share of the income generated from fan spending at the arena is no greater than the share of the total income generated from county-wide sales that is used to cover employment costs.[29] In order to calculate labor's share of income in Miami-Dade County, the employment cost for all workers in 2003 was divided by the county's total income for the same year. Hence, labor's share of income in Miami-Dade County is about 55.3 percent.[30]

Not all of the induced spending at the AAA impacts local employment in the same way. Additional factors intervene to reduce labor's share of the revenue generated within the confines of the AAA. Like that which is generated outside the AAA, a portion of the revenue generated inside the arena is spent on the wages or salaries and benefits of local workers. However, more of the incremental revenue generated inside the AAA is

[29] This is a conservative (optimistic) estimate since labor's share of the income generated in the sectors of the economy that typically absorb tourist dollars is likely to be lower than that of the economy overall. For example, average wages and hours worked are lower in the retail and service sectors than the average for all economic sectors (BLS, 2000-2004).

[30] $35,659,420,624 (QCEW, 2003) / $64,460,780,000 (BEA, 2003) = 0.553.

leaked out of the local economy through the salaries of team personnel, including owners, managers and players that are likely to spend most of their money outside of the local jurisdiction (see chapter III). To account for this leakage, the amount of revenue thought to be expended on the costs of local labor was reduced to half of the normal share (Hamilton and Kahn, 1997, note 70). To calculate the job increment the average salary of the types of jobs created was accounted for. Most of the initial and subsequent rounds of visitor spending are likely to take place at retail and service sector establishments throughout the Miami metro area, such as restaurants, bars, hotels and retail shopping stores. Therefore, to determine the number of new jobs created, labor's share of the incremental revenue was divided by the average salary of workers in these employment sectors.

The final step involves the application of the employment multiplier to account for the impact of new income captured by county government, business owners and workers that is subsequently expended in the local economy. As discussed in the previous chapter, a number of factors influence the ripple effects of job creation, most notably the unemployment rate. In 2000, unemployment in Miami-Dade was at a low point (US Census, 2000). It had been declining for at least five years and rose again in subsequent years. This enhances the possibility that any job creation resulting from new fan spending induced by the AAA replaces jobs elsewhere in the local economy. Therefore, the ripple effects of new jobs created should be relatively small. Consistent with the methods of similar research (Rappaport and Wilkerson, 2001; Hamilton and Kahn, 1997) and considering the multiplier values typically employed in promotional studies, ranging

from 1.5 to 2.5 (Howard and Crompton, 1995),[31] this analysis assumes an employment multiplier value of 1.2. In other words, every job created from incremental visitor fan spending induced by the AAA results 0.2 additional jobs as the initial new workers spend money in the local economy.

Limitations of the Study.

Like any cost-benefit analysis, this research must make certain assumptions in the absence of reliable data. The most significant assumption made is that of the non-local fan base. The exact proportion or number of non-local fans at the AAA could not be ascertained. Similarly, the motivations behind non-local fans visit to the AAA were not determined, thus the proportion of non-local fans that are *casuals* or *time-switchers* is not known. As discussed above, reasonable assumptions were made by taking into consideration the commercial context in which the arena was built and the geographic context of fan spending in southeast Florida. Moreover, considering the data available for non-local fan attendance at other professional sports facilities throughout the United States and the geographic and commercial context of fan spending at those facilities compared to South Florida, the assumptions made in this analysis are conservative (optimistic) in the sense that they likely overstate the non-local fan base. In general, all of the assumptions made in this analysis (with the exception of the multiplier value) are also conservative in the sense of making optimistic predictions of the AAA's economic impact. As such, the findings of this analysis represent a best case scenario of the benefits the county can expect to receive from the AAA. The next chapter applies the assumptions

[31] Multiplier values of 1.5 or higher are likely to exaggerate the ripple effects of job creation (Howard and Crompton, 1995; Hudson, 2001).

and methods outlined above in order to estimate the costs and benefits of the American Airlines Arena to county taxpayers.

Chapter V
Findings

In this chapter the net fiscal cost or benefit to the county is estimated and the employment impact of the new arena is measured in terms of the number of full-time jobs created at the average salary of retail and service sector workers. The first section of the chapter describes the financial arrangements between the AAA and Miami-Dade County and reports the corresponding fiscal costs and benefits to the county. The second section presents the county's net fiscal balance from the public-private partnership over the 30 year term of the contract. The final section measures the employment impacts of the AAA, accounting for revenue leakage, the substitution effect of fan spending and the opportunity cost of the public investment.

The plan to build the arena was negotiated in 1996-97 between county representatives, the Miami Heat, and Basketball Properties Limited (BPL), the management company. What set this deal apart from most other public-private partnerships in professional sports is that the Heat franchise was required to finance the construction of the arena without public support. This was not as substantial a compromise as public officials proclaimed since taxpayer dollars covered virtually all other expenses related to the construction and operation of the new arena, including the acquisition and preparation of the land, roadway and other infrastructure improvements, and additional subsidies in the form of operating payments and foregone tax revenue.

The Public-Private Partnership.

The county's contribution to the construction and operation of the AAA are various and complex. The county makes annual operating cost and municipal service payments totaling $6.5 million for each year of the contract except the last one, when the payment will only be $1.5 million. In addition, in 1998 and 1999 the county paid the Team $5 million to cover start-up operating costs and municipal services (BPL Audit Report, 2000). These payments total $196.9 million over the 30-year term of the agreement. In addition, the county purchased 17 acres of Maritime Park on which the arena was built from the City with bonds worth about $42 million in interest and principle over 20 years (Purchase Agreement, 1997).

Investment in local infrastructure to facilitate increased traffic due to the stadium must also be considered as part of the subsidy. The county is obligated to pay up to $1.8 million in roadway improvements related to the development of the Parcel B retail complex (Composite Amendment Two, 1999). Although information was not available indicating that this amount has been expended, numerous improvements have been made to the roadways surrounding the arena since it opened. In 1998 the county built a new $28 million parking garage for Miami-Dade College on which it collects a $2 surcharge for spaces used by Miami Heat fans on game nights (City of Miami MUSP List, 2005). While the explicit purpose of the parking garage is to serve the community college, it is heavily used by arena patrons on game nights as well.

Tax breaks must also be included in order to estimate the "real" cost of a public-private partnership (Long, 2005; LeRoy and Hinkley, 2002). The AAA receives a state sales tax rebate which is set at a fixed rate. The Arena manager receives an approximately

$2 million annual rebate apart from the taxes it pays on sales at the arena (BPL Audit Reports, 2000-2004). The arena is also exempt from paying local property taxes since it is owned by the county. In private hands the property would have yielded about $18.7 million at 19.5 percent appreciation and $8.9 million at 15 percent appreciation over 30 years at the millage rate established by the relevant local taxing authorities (see notes 22 and 23 above). In other words, the AAA receives an almost $69 million subsidy ([$2m X 30 years] + $8.9m) in the form of sales and property tax abatements over the term of the contract with the county.

The Miami Heat and other tenants contribute to the facility's construction and operation in a few ways. To fund the construction of the arena Micky Arison, owner of the Miami Heat, secured $185 million in fixed-rate bonds placed by Prudential Securities, Inc., and insured by MBIA Insurance. Arison used the value of the team to provide $60 million of collateral and had to guarantee revenue streams from sponsorship and TV broadcasting deals (BPL Audit Report, 2001; McEntee, 1998). The Miami Heat pay a use fee of $1.5 million annually to play basketball at the AAA and other tenants pay almost $1 million in annual retail fees to the arena manager. The combined use and retail fee is $1.9 million more than the annual rent at the Miami Arena, although rent at the old arena was paid directly to the municipal stadium authority.

The largest potential source of revenue for the county comes from its' 40 percent share of the arena net revenue above $14 million. Since the arena (independent of the team) has incurred net losses in its first five years of operation, the county has received nothing from the revenue sharing agreement thus far (BPL Audit Reports, 2000-2005). The present inputs and outputs reported in the BPL documents suggest that the county

will not be able to earn a share of arena net revenue over the term of the contract. However, other observers have predicted that once the arena eliminates its debt service (scheduled for 2014) the county will begin to earn money from the partnership (Krischer-Goodman, 1999). If arena revenues are adjusted so as to rise at a faster rate than arena expenses (BPL Audit Reports, 2000-2005), in 2014 the arena will begin to generate between $2 and $10 million in annual profits (authors calculations). It is unclear under what conditions the arena would be able to generate enough revenue or sufficiently decrease its expenses in order to reach the annual $14 million net income threshold above which the county would be able to earn its 40 percent share. The largest revenue stream accounted for is that of luxury suites which, generating around $14 million, are virtually sold out. Player salaries are not part of the arena's expenses; otherwise selling a few players would considerably reduce expenses. Press reports have estimated that the arena may share as much as $8 million with the county over thirty years (Krischer-Goodman, 1999).

The other two sources of direct revenues to the county are sales tax revenue and a $2 surcharge on parking which yields around $278,000 per year counting the estimated number of spaces used by Heat fans.[32] Revenue from sales taxes collected on spending induced by the AAA over 30 years could reach $205 million, but much of this represents the substitution of leisure spending elsewhere in the local economy and revenue that is redistributed to other parts of the state. Assuming a non-local fan base of 50 percent, estimated spending of $38 per fan (including parking, concessions and before-and-after game spending), and assuming that the county receives a 13 percent share of state sales

[32] Recall that it is optimistically assumed that every third arena patron pays for parking (see chapter III).

tax receipts (see chapter III), the local sales tax revenue benefit is $8.75 million. While annual rent paid at the AAA is almost $2 million, the county's portion of this amount is negligible. Between 2003 and 2005 the county received just $376,791 in retail fees from non-basketball AAA tenants (Retail Fees, 2005). In addition, the county receives $2 million over 20 years from the sale of the arena naming rights and $500,000 which is paid by the team for the development of park space in the surrounding area (Related Agreements, 2005).

The final financial factor to be considered is the continuing cost of the Miami Arena. Outstanding arena debts following the construction of the AAA were reported to be about $6 million per year (Rabin, 2004; Krischer-Goodman, 2001). However, as of 2004, the old arena was purchased by a private investor, relieving the City of Miami of its' debt service commitments and putting the arena on the city's tax rolls (Rabin, 2004). Nonetheless, the approximately $24 million in debt service the city paid for the Miami Arena since the AAA's opening must be considered among the public costs of the new facility. While the Miami Heat and the Florida Panthers played their home games there, the Miami Arena was making money (even though the teams were losing money). For example, between 1995 and 2000, the Arena's most profitable years, net income was just over $1 million annually and the City of Miami's Sports and Exhibition Authority's (MSEA) share of the profits was close to $400,000 (Taylor Seeman, 1998). This represented the MSEA's net income from the Miami Arena after debt service and other expenses. Thus, the arena was profitable for the MSEA until the departure of its two professional sports franchises, since when it has generated virtually no income for the City and cost $24 million in debt payments.

At the AAA, the Miami Heat capture all revenues from admission tickets, on-site parking, retail merchandise sales at the arena, national and local media sponsorship and advertising deals, and other sources of revenue which do not figure into the Arena manager's net income. It is impossible to know the exact income generated by these sources since the Miami Heat is a private company that protects the financial details of its operations. However, some estimates are available. Forbes magazine estimates that the Heat earned about $90 million from all fan spending in each of their first five years of operation, with net yearly expenses ranging from $74 to $94 million (Forbes Team Valuations, 2005). Annual gate receipts are not a straight-forward calculation, since revenue sharing with the league reduces the team's intake. Forbes Magazine estimates that the team's average annual gate receipts for the years 2002 through 2004 is about $30 million (Forbes Team Valuations, 2002-2004). According to Forbes, the team's net income was $45.6 million since its move to the new arena (not including 2005).

Net Fiscal Return to Taxpayers.

What do the aforementioned public and private contributions and revenues mean for the taxpayer's return on their investment in the American Airlines Arena? Table 2 lists the public subsidies, revenue generated and the resulting fiscal balance from the AAA.[33] The total subsidy provided to the arena over the 30 year term of the contract is $268.7 million, including interest and principal on bonds used to purchase the land, the operating and municipal services payments and public infrastructure investments. The

[33] Table 2 and the discussion in this section considers the costs (subsidies) and benefits (fiscal return) to taxpayers of Miami-Dade County only and does not consider other expenses arguably attributable to the construction of the AAA. For a more comprehensive account of costs and benefits see Table 6 in the appendix.

total revenue generated by the AAA that benefits the county is estimated to be $40.5 million over 30 years, including the county's share of arena net revenue, revenue from the arena naming rights, the public park fund, tenant retail fees, the surcharge on parking and sales taxes collected on incremental non-local fan purchases at the AAA.

Table 3. Net Fiscal Costs and Benefits to Miami-Dade County

Subsidy and Revenue Sources	30 Year Total
Operating And Services Subsidy	$ (196,900,000)
Land Subsidy	$ (42,000,000)
Roadways Investment	$ (1,800,000)
MDC Parking Garage (1998)	$ (28,000,000)
Total Subsidy	**$ (268,700,000)**
Direct Naming Rights Surplus	$ 2,000,000
Park Fund	$ 500,000
County Share	$ -
Local Sales Tax Revenue (MSA, 40% non-locals)	$ 14,968,041
Local Sales Tax Revenue (CMSA, 20% non-locals)	$ 8,401,830
Retail Fees (non-basketball tenants)*	$ 6,000,000
Revenue From Parking	$ 8,642,799
Total Return	**$ 40,512,670**
Cost/Benefit to Public	**$ (228,187,330)**

* Miami Heat and Miami Sol use fees ($1.5 million annually) are income for the arena manager and considered under "county share" above. However, the Miami Sol are no longer tenants at the AAA.

The public cost of subsidizing the Arena far outweighs the fiscal return. Under the assumptions mentioned above and accounting for the public cost of the Miami Arena, the balance of costs and benefits ranges from losses of $205 million to losses of $329 million. By contrast, the estimated net operating income of the Team over 30 years at the AAA, before debt payments and understating revenue from media and advertising

agreements, is estimated at about $283.6 million.[34] In addition, the value of the team increased from $162 to $225 million following the move, an increase of about 40 %, which is greater than the average increase of about 30 % for all other NBA teams that moved to a new facility since 1991 (NBA Hoops Online, 2005; Forbes Team Valuations, 1991-2004).

The above input-output estimates demonstrate that the share of the revenue returned to the county from the new arena is substantially less than the total subsidy over the 30 year term of the public-private partnership. Moreover, it appears that the greatest beneficiary of the move from a fiscal standpoint is the Miami Heat; its owner, basketball players and other personnel. The next section examines the extent to which the estimated revenue increment attributable to the new arena has had an economic impact by creating new employment opportunities for residents of Miami-Dade County.

The Employment Impact of the American Airlines Arena.

Jobs are created from the ripple effects of incremental visitor fan spending induced by the AAA. A portion of the non-local fan spending at the AAA simply replaces that which would have occurred at the former arena. To analyze the employment impact of the AAA the increase in attendance and spending by non-local fans at the new facility must be isolated. There is no evidence to suggest that the new arena has been more successful in attracting non-local fans than the old arena, although this does not mean it has not. One reason to suspect that the AAA underachieves as a tourist attraction is the commercial context in which the structure was built and the lack of long-term planning

[34] Based on estimates by Forbes and authors own calculations.

(see chapter III). The increase in non-local fans corresponds to the increase in available seats and depends on the popularity of the new arena as reflected in attendance figures over the first five years of its existence.

Comparing the average of the first five years at the AAA to the average of the last five years at the Miami Arena,[35] the annual increment in non-local attendance using the CMSA-based definition (20 percent non-local attendance) is 13,993. Under the MSA-based definition in which Broward fans are included in the economic impact (an additional 30 percent of total attendance) the non-local attendance increment is 34,982. This translates into incremental spending when these spectators purchase tickets, food and beverage at the arena, and spend money on restaurants, hotels and other services in the local area.

Since jobs created from the incremental revenue induced by the AAA are likely to be created in the service and retail industries serving visitors, the mean income for these industries should be used to estimate job creation. Table 4 presents the relevant wage data for occupations within these sectors in 2004. While attempting to account for the salary of the types of jobs most likely created from increased spending at the AAA is more accurate than using the average salary of all industries, it remains a crude measure of what the actual annual pay may be in these new jobs. This technique does not account for the fact that more jobs may be created in some industries instead of others. For example, if jobs are more likely to be created at hotels and restaurants than retail stores, the average salary of new jobs would be lower. In the absence of a weighted statistic, taking

[35] Excluding the 1999-00 and 1998-99 seasons for the reasons provided in footnote 25.

the average of average salaries within certain industry sectors allows for a more realistic estimate of the quality of jobs created from incremental revenue induced by the AAA.

Table 4. Worker Wages for Industries Serving Tourists.

Industry Title	Average Annual Wage	Establishments	Average Monthly Employment	Percent of Economy
Retail Trade	$25,127	11,128	115,233	12%
Leisure and Hospitality	$21,725	5,675	97,872	10%
Accommodation and Food Services	$18,174	4,594	84,776	9%
Other Services (except public administration)	$23,148	7,697	35,532	4%
Average of Industry Sectors	**$22,264**			

Source: Florida's Labor Market Statistics, Quarterly Census of Employment & Wages: Miami MSA, 2004

Table 5 presents the estimated spending increments and job creation benefits at the new arena. Using the CMSA-based parameter, the annual average revenue increment is $3,453,639 from non-local fan spending on admissions tickets, concessions and parking, and $8,634,098 under the MSA-based definition. The revenue increment from spending outside the arena is $419,780 in the CMSA-based parameter and $699,634 according to the MSA-based parameter. Finally, the incremental sales tax revenue generated by non-local fan spending is $68,346 and $167,487 for the CMSA- and MSA-based parameters, respectively.

Revenue from spending within the confines of the sports facility are more likely than that which occurs on the outside the arena to leak out of the local economy. Athletes, coaches, trainers and other team personnel are more likely than employees outside the stadium to spend a greater portion of their income outside the local jurisdiction and the

majority of a new facility's revenue increment is typically devoted to increases in the team's payroll (Hamilton and Kahn, 1997). Indeed, at the AAA, payroll increased $38 million after the move, which is about 70 percent of the team's annual revenue increment since moving to the AAA.

Table 5. Job Creation Benefit from Incremental Revenue

	Spending Increment	Labor's Share	New Jobs	Multiplier
50% Non-Local Attendance				
Arena Spending	$ 8,634,098	$ 2,288,036		
Non-Arena Spending	$ 699,634	$ 370,806		
Tax Revenue	$ 167,487	$ 88,768		
Total		$ 2,747,610	123.41	148.09
20% Non-Local Attendance				
Arena Spending	$ 3,453,639	$ 915,214		
Non-Arena Spending	$ 419,780	$ 222,484		
Tax Revenue	$ 68,346	$ 36,224		
Total		$ 1,173,922	52.73	63.27

* Calculated by dividing "labor's share" by 22,264, the average income of workers in Miami's service and retail sectors.

Whereas about 55 percent of incremental spending outside the stadium is likely to be re-spent on the costs of local labor, only one quarter of that generated within the arena should be expected to function in this manner (Hamilton and Kahn, 1997). Proceeding according to this reasoning, under the assumption that the non-local fan base is 50 percent of total attendance, $2.75 million from the aforementioned revenue streams is re-spent on the salaries and benefits of local workers. If this money goes toward creating typical jobs in Miami's retail and service sectors, approximately 123 jobs may be initially created. Having accounted for leakage and the substitution effect by reducing the gross revenue amounts to emphasize new spending, an appropriate employment multiplier was

applied to estimate the jobs that are created by additional rounds of spending as new workers make purchases in the local economy. Using a multiplier value of 1.2, the 123 new jobs become 148 after subsequent rounds of spending.

However, recall that the spending of Broward fans, estimated to comprise about 30 percent of the AAA's fan base, represents a realignment of fan spending rather than new money for Miami-Dade County. Assuming that the visitor fan spending that represents incremental revenues for the County is that of fans from outside of Broward and Miami-Dade (Palm Beach, the Florida Keys, and further), the proportion of incremental non-local fans was reduced to 20 percent. Using this figure and accounting for the cost of labor within the relevant service and retail sectors of the economy, the total number of new employment opportunities created is about 63.

In the case of the AAA, Miami-Dade County can expect to lose more than $200 million over the term of the agreements with the Miami Heat. If the public's investment in the AAA is considered in terms of job creation, each of the 63 new employment opportunities is worth about $4.2 million, according to the subsidy total reported in table 3 above. The cost of creating jobs through local or state economic development programs is substantially less. For example, between 2002 and 2003 Miami-Dade County facilitated the creation of 1,420 jobs through $1.98 million in property tax exemptions, a value of $2,235 per job (EZ Annual Report, 2005). Similar local programs create employment opportunities at costs ranging from $1000 to $5000 per job (Beacon Council, 2005). The small number of jobs created and the considerable fiscal losses for the county demonstrate that the costs of subsidizing the AAA far outweigh the benefits to local taxpayers.

Chapter VI
Discussion of Findings

Justifying Public Investments.

Do the losses reported above mean that the public's investment in the AAA is not justified? Hone (2005) argues that there is another perspective from which public investments in entertainment projects may be justified. In the United States subsidies for sports facilities are most often justified as a worthwhile investment in an economic development project or a boost to civic pride and city image (Curry, Schwirian and Woldoff, 2005; Delaney and Eckstein, 2003; Rich, 2000; Noll and Zimbalist, 1997). Hone (2005) argues that the impacts of subsidized sports facilities should be analyzed according to the information requirements of local planners. In particular, as he argues that the purpose of subsidies – independent of their varying political rationales – is to intervene in the normal operations of the market, they should be evaluated on these grounds (Hone, 2005). If the intervention is thought to improve the efficiency with which resources are used in the local economy, then the justification rests on the presence of market failures (Hone, 2005, p. 4).

One market impediment to private sector investment in new sports facilities is the inability to capture all the goods produced by sports facilities. Professional sports produce "positive externalities" that may be captured by businesses and fans that did not contribute to the acquisition of the new facility through tax dollars or otherwise (e.g., a free rider problem) (Hone, 2005, p. 5; Fort, 2003). Leagues have responded to this problem by using their cartel structure to ensure that new or relocating teams obtain favorable lease agreements and build arenas that more completely capture fans' spending

(Rosentraub, 1997). These developments make it unlikely that the free rider problem would deter private sector actors from investing in sports facilities since leagues and team owners are increasingly guaranteed to reap the vast majority of the profits generated by new sports facilities.

Another market impediment has to do with "divergences in discount rates," (Hone, 2005, p. 6), which refers to the fact that different types of investors have different expectations of the time it should take for benefits to accrue from an investment. Hone (2005) argues that "private investors may well have a shorter planning horizon (or high discount rate) than society as a whole" (p. 6) and therefore may be reluctant to invest in professional sports facilities. Thus, the project of interest may not be carried out without government intervention.

Since so many local governments have given in to the demands of team owners for subsidized stadiums in the United States (leaving few examples of what happens in the opposite situation), the significance of the market impediments identified by Hone is not clear. However, in a few of cases where subsidies were not provided, team owners have creatively fashioned the needed resources to build state-of-the-art facilities (Baade, 2003; Rich, 2000). One example is St. Louis, where the Rams were able to use guaranteed revenue from personal seat licenses (PSLs) to independently finance one of the most expensive domed football stadiums ever built, only after failing to gain financial support from the public sector (Keating, 1999). While St. Louis is heralded as the most successful example of a privately financed sports facility, Joe Robbie also used PSLs to finance a new stadium for the Miami Dolphins in 1987 after being unable to raise funds from the public sector.

In the case of professional sports facilities, it seems unlikely that market impediments would deter the private sector from investing in new stadiums and arenas. Indeed, the evidence suggests that the demand among urban business and civic elites (independent of the desires of public officials) is sufficiently strong to ensure the construction of a new facility with or without public support (Curry, Schwirian and Woldoff, 2004; Delaney and Eckstein, 2003; Rich, 2000; Keating, 1999; Shropshire, 1995). Nevertheless, the public sector has increasingly become involved in building and operating sports facilities, either through pressure from the private sector, of its own volition or, more commonly, through a combination of both. In light of the findings of the Miami case, the public's investment in sports facilities is not justified on the basis of market failures.

Arison may have made subtle threats to leave but it is unlikely that he would have moved his business away from the largest vacation seaport in the world (Beacon Council, 2005). Moreover, it is likely he would have settled for a less extravagant and less costly facility as long as he could increase the team's income through revenues from luxury suites and other up-scale amenities within the arena's confines. His ability to privately finance the high cost of the AAA's construction suggests that he may have easily financed a greater portion of the overall cost had the facility not been so expensive.[36] This would have reduced the county's share of the costs and reduced the county's losses over the term of the contract.

Miami's own tendency toward extravagance and public officials' willingness to pay also contributed to the high cost of the arena and the lack of benefits to local

[36] The overall cost of the AAA's construction was reported to be from $200 to $220 million.

taxpayers. The abruptness and secrecy in which the decision to subsidize the facility was made evaded the public's involvement until voter approval was needed and could be manipulated by a freshly elected charismatic mayor with important social ties to the community. In other words, the lack of a public planning process meant that local elites would reap the benefits while taxpayers carry the burden.

The argument that Miamians receive considerable non-economic benefits is weak since the Miami Heat would have remained south Florida's professional basketball team even if they moved to Broward. The extent to which the loss of the Heat to Broward would have reduced civic pride in Miami or the city's image is not clear since the move would not have carried the team far enough away to affect television viewership, likely the largest source of non-economic benefits. Moreover, in the context of the increasing emphasis on building regional political and economic ties, the image of southeast Florida would have remained intact. Indeed, local elites seemed to be the only ones with something to lose in the way of pride and reputation.

Non-Economic Costs.

Just as tourist spending has ripple effects on the community so do the economic losses imposed by the arena subsidy. Dade County Board of Education, the Children's Trust and other local taxing authorities forego scarce funds (property tax revenues) because a private business was allowed to reap large profits through its use of public property. Moreover, taxpayers' willingness to pay for construction projects is thought to have a certain threshold above which public officials find it difficult to raise taxes (Eisinger, 2000, p. 325). The annual operating subsidy paid to the arena limits the

county's budgetary flexibility as it becomes increasingly politically unfeasible to make other large public investments, regardless of their need or desirability. The investment also means that less money is available in the county budget, thus impacting the county's ability to borrow in order to finance alternative projects that may generate more positive impacts on the lives of ordinary citizens.

In addition, subsidizing entertainment projects like the American Airlines Arena may heighten cleavages between supporters and opponents of the project and erode trust between policy makers, civic leaders and local residents. Subsidies for professional sports facilities have not been popular among urban electorates judging by the political scorecard. Of the thirty referenda on stadium subsidies between 1984 and 1997, nineteen produced negative votes in 14 different cases (Eisinger, 2000, p. 324). However, the majority of defeated stadium subsidy proposals were subsequently approved through measures that circumvented voter approval, in many cases by creating special taxing districts to provide infrastructure investments. In Miami secrecy and evasion of public input has been the norm. Reporters have noted the proliferation of "pocket items" and other informal arrangements for approving the use of public funds (Jimenez, 2000). The decision to subsidize the AAA was similarly one made in secrecy, at an early morning emergency meeting while citizens were sleeping and in subsequent conversations between local elites in the luxury skyboxes of the old arena (Foreman, 2003, Dade County BOCC, 1996). As critical journalists expose the undemocratic nature of such decisions (Bernstein, 2001; DeFede, 1996; Jimenez, 2000; Nielsen, 2001), local stakeholders may feel increasingly alienated from the civic and political leaders that were responsible for the subsidy.

Local residents and/or community organizations may feel cheated if the AAA project does not produce the new jobs promised by the arena subsidy proponents. The AAA initially staffed its food concessions with volunteers from community service organizations, preventing local residents or labor union members from occupying the jobs created at the AAA (Bridges, 1999). While this strategy failed after a short period due to the unreliability of volunteer workers, it sparked a conflict between the Arena manager and Hotel Employees Restaurant Employees (HERE) local 355, which charged BPL with breaking its promise to hire local residents (Stieghorst, 1999). Organizers from the union claimed that the AAA had created only 83 of the 900 jobs promised to participants in the city's Workforce Development program. Moreover, dozens of HERE workers at the Heat's former home, the Miami Arena, lost their jobs when the team relocated to the AAA, where the team allegedly pressured Levy Restaurants, manager of the facility's food concessions, to avoid union representation.[37] Although the AAA subsidy received greater support from non-white communities, such as Overtown, the subsequent attempts to avoid hiring local workers from the Miami Arena by using volunteer staff may have heightened cleavages between the community and AAA subsidy proponents.

Moreover, the social contradictions inherent in the AAA subsidy surely remind the socio-economically marginalized populations of the county of the value of their community to local policy makers. In particular, the abandonment of the Miami Arena at the convenience of local elites is not unlike the zoning and transportation policies that

[37] According to Andy Balash, labor organizer at HERE local 355, Levy Restaurants is a union-friendly company in most other states where they operate but he believes that the Miami Heat franchise pressured the food concessions management company to keep out the union using subtle threats to replace them. Balash indicated that his local made a strategic decision to avoid organizing the AAA workers since HERE has good relations with Levy Restaurants in other parts of the country.

facilitated the steep decline of the Overtown community during urban renewal and onward (Dhuly, Revell and Wong, 2002). Both the Miami Arena's abandonment and the construction of Interstate 95 and other infrastructure projects exemplify the trend toward building cities to facilitate the spending of the visitor class (Eisinger, 2000, 1988). The recent trajectory of economic development in Miami appears to be a different version of urban renewal. Rather than directly leveling entire communities local officials provide a number of investment incentives and let the market crystallize developer interest and usher in socio-economic turnover in communities. Local activist groups have become increasingly vocal in their opposition to government supported gentrification. While it is difficult to precisely measure the extent to which the AAA led to strained relations between citizens and leaders, the conflicts over local hiring and the abandonment of the Miami Arena may have alienated the workers, labor groups and others in the central city neighborhoods that initially supported the project. Future research should consider the extent to which the AAA's construction and operation generated enduring resentment among local residents and workers, community organizations or other stakeholders.

Policy Implications.

At the policy level, there are a several options for regulating subsidies for professional sports facilities which involve fundamental reforms of the professional sports industry and processes of urban governance. Policies that shape the structure of professional sports can be changed, as well as policies related to urban economic development in the United States. The following discussion reviews the various policy

options that can be used to protect the public's interest from the interests of stadium subsidy proponents.

Sports Industry Reforms.

Cities can regulate the amount of subsidy that can be provided to facilitate the construction or renovation of sports facilities for teams threatening to relocate. Although European countries subsidized sports as recently as the 1970's, the European and United States "sports models" have diverged more recently (Andreff and Staudohar, 2000). In European football (soccer), for example, with the exception of Spain, the use of public subsidies to build new facilities or enhance the fortunes of the local team was banned in different countries (e.g., Germany, France, Italy) at different points throughout the 1980's (Andreff and Staudohar, 2000; Baade, 2003). Outrageous subsidies in Spanish football persist not because teams demand it but rather because of the historical, cultural context of the connection between sports and politics in Spain (Levit, 2002).[38] A couple of clubs in Italy have also recently received public support, but they remain the exception to the rule and such arrangements have mostly had negative political outcomes for the elites and policy makers involved.[39] By contrast, several American policy makers have been reelected apparently without regard to their role in subsidizing stadiums for new or existing sports franchises (Brown, 2002; Eisinger, 2000).

[38] Spanish politicians' popularity seems to be strongly associated with the success of the teams they support publicly (and privately).

[39] Public support is perhaps not the most accurate description of the case in Italy. In one well known case, the country's Prime Minister and owner of the AC Milan football club was forced to resign on two separate occasions amid accusations of corruption partly related to his involvement in the sports business.

The situation in Europe may in part reflect the priorities of policy makers and citizens (Levit, 2002), but it is more likely due to the fact that football is uncontested as the most popular sport in most of Europe (Andreff and Staudohar, 2000; Baade, 2003). The preeminence of a single sport protects the financial position of individual football clubs "by mitigating some of the financial risk assumed by teams by eliminating some competition for spectator interest and revenue" (Baade, 2003, p. 586). Thus, clubs are assured to capture most if not all of local residents spending on sports entertainment. By contrast, in the United States, the beginning of baseball season overlaps with basketball in the spring and the end of baseball overlaps with football in the fall, while football overlaps with hockey in the winter. Fans have many more "major league" sports consumption options. This does not suggest that in Europe other sports like basketball, cycling or tennis, to name a few, are not important; but they do not command such a wide audience the way European football or the aforementioned major league North American sports do.

European apprehension to sports subsidies also reflects a more general emphasis in European football on sporting success as opposed to the greater prevalence of profit seeking that is evident in the United States (Andreff and Staudohar, 2000; Cairns, Jennett, and Sloane, 1986). In recent times there is no evidence of European clubs threatening to relocate or otherwise demanding new sports facilities to enhance profits. At the same time, European football is subject to the same forces that drive player salaries upward in the United States.

The development of free agency in professional basketball in the United is a driving force behind the behavior of team owners to maximize profits through the

construction of new sports facilities (Andreff and Staudohar, 2000; Rosentraub, 1997). While free agency emerged in most U.S. sports leagues in the 1980's and early 90's, the 1995 Bosman case in the European Court of Justice rescinded rules that regulated the ability of players to sell their talents on an international market for football (soccer) players. While this has similarly led to escalating player salaries in European football, there has not been a proliferation of publicly subsidized sports facilities. Like franchises in the U.S., European clubs have turned to advertising and merchandise sales on a global scale in order to generate the profits needed to afford top players. In particular, the United States' consumer market has become the target of many top- and middle-tier European football clubs seeking to broaden their financial base (Andreff and Staudohar, 2000; Noll, 2002). The same is occurring in the major sports leagues in the United States; professional football and basketball leagues have developed in Europe and other parts of the world while international competitions in basketball and hockey continue to grow in popularity (Fort, 2000). The U.S. National Basketball League (NBA), in particular, is experiencing an internationalization of its labor market in which foreign players are achieving unprecedented success with their NBA clubs and respective national teams in the Olympics. This has allowed North American basketball franchises to capture new revenue streams from the sale of team merchandise in previously untapped consumer markets around the world. However, while revenue from international sales represents a considerable boost to the bottom lines of European clubs, in the U.S. their potential to boost profits is undermined by revenue sharing policies in most leagues which seek to promote and preserve competitive balance. Indeed, while the top football competitions in Europe have traditionally been dominated by the top two or three clubs from the English,

Spanish, Italian and German leagues, in the U.S., particularly as of late, the historically wealthy teams do not necessarily come out on top.

Thus, the U.S. sports model involves greater public sector involvement and promotes a more equitable distribution of championship potential while the European sports model revolves around the winning traditions of a select number of teams, albeit from several different countries.[40] The apparent lack of competitive balance in Europe's top leagues and tournaments is offset by the greater number of tournaments and trophies that are available. In particular, middle-tier teams in leagues may qualify for competitions from which most of the top clubs are absent, such as the UEFA Cup. In addition, at-large qualification allows little known teams from throughout Europe an opportunity to compete in any major tournament. Less wealthy teams are therefore able to showcase their talent on an international stage and bring pride to their local community. In addition to the "Champions League" and the UEFA Cup, which are international club competitions, football teams can win trophies in domestic leagues and tournaments, of which each country typically has several divisions. Moreover, the structure of European football leagues, in which poorly performing teams are relegated to lower divisions while the top two or three teams (depending on the league) are promoted, encourages teams to concentrate on winning. Being promoted to the highest division pays off by providing more national and international TV broadcast opportunities, enhancing the team's ability to sell merchandise at home and abroad. But being relegated may also be beneficial if the

[40] There are, of course, many instances of less wealthy or less known teams winning major competitions. However, in these cases the previously unknown talent in the team is usually lost by the following season to wealthy bidders. In Europe, the French and Dutch leagues, which have had several of such "surprise" teams in recent history, are considered major exporters of raw talent while clubs in the English, Spanish, German and Italian leagues are the major importers of new talent.

descending team's quality enables it to win in the lower division and thereby increase attendance. By contrast, in the United States teams can only earn one trophy; league success leads to a "playoff" tournament which culminates in an inappropriately labeled "world championship" series or game. While more teams have the potential to be champions in the U.S., in Europe there a greater number of trophies to be won by teams at various levels of competitive ability.

What does all of this have to do with the greater incidence of subsidies for professional sports facilities in the United States compared to Europe? First, in Europe, where almost every city and town has a local football club playing in one of the three or more football league divisions, teams cannot threaten to move to another city. Thus, the structure of European football does not provide team owners with the bargaining leverage that American franchise owners enjoy whenever they decide they want to build or renovate a sports facility with taxpayer dollars. Baade has also noted a "greater identification between communities and teams in Europe than is true in the United States" (Baade, 2003, p. 586). This is at least partly due to a difference in the culture of the European sports industry, which features a greater emphasis on winning, and longer, historical ties between teams and local communities in Europe (Andreff and Staudohar, 2000; Baade, 2003). While most of Europe's top football clubs and leagues were founded around 1900, most American sports leagues gained their present configuration mid-way through the 20th century and even the biggest franchises have changed cities and names several times since their inception. The difference in the sports models of the United States and Europe partially accounts for the differential incidence of subsidized sports facilities.

Banning direct and indirect public subsidies to sports teams in the United States is one reform that could be applied to protect taxpayers. This was already partly achieved through a 1999 law which prohibited the use of tax-exempt bonds to fund stadium construction (Baade, 2003). However, several other funding options remain that allow public officials to provide concessions in order to attract or retain sports teams. In addition, reforming the structure of American sports based on the European model would reduce the leverage of teams over cities, thereby reducing (or altogether eliminating) the concessions they receive through public-private partnerships. In particular, removing leagues' ability to regulate the number of teams would allow for more teams in more cities and ultimately force leagues to adopt a divisional hierarchy, similar to European football, or competing sports leagues would develop to accommodate the greater number of teams. The development of rival leagues, for example, would ensure that if a team abandons a franchise-worthy city (that is, with large sports market) another league could place a team there to fill the void. Knowing this, cities would feel less compelled to grant concessions to retain a team threatening to leave. In turn, teams may be less likely to relocate or threaten to relocate, possibly leading to the development of deep and long-term relationships between teams and cities such as is common in European football. The greater identification between teams and communities may also promote more responsible behavior toward local fans on the part of team owners and other local elites involved in the business of sports.

Finally, it is important to note that in England, for example, it is not uncommon for stadiums to be shared by multiple teams, particularly in cities with more than one team playing in the "premier" league division like Manchester or Everton. Moreover,

many stadiums throughout Europe that host premier league or first division teams also serve teams in lower divisions. From the perspective of economic impacts, the before-and-after match spending of fans that is induced by the presence of the team is multiplied by the presence of more than one team. Moreover, economic costs in the form of crowded out business and negative impacts from increased traffic is minimized by being isolated to a smaller area of the city.

However, such reforms may not be feasible in the United States where there are four major sports compared to only one in Europe. Leagues and team owners control over the sports business is deeply entrenched and the government's "hands-off" policy regarding sports may prove highly resistant to change (Andreff and Staudohar, 2000). But the sports industry is not the only relevant arena for policy reform.

Urban Economic Development.

Urban economic development processes are often informal and secretive and thereby unaccountable to interested publics. As mentioned earlier, Miami has been prone to a number of unaccountable legislative processes, including the negotiations that resulted in the AAA subsidy plan and the use of "pocket items" by a few policy makers (Bernstein, 2001; Nielsen, 2000). However, even where development decisions have greater transparency, they tend to favor the economic interests of investors in buying cheap (land) and selling high, the interests of public officials in boosting the local tax base through the enticement of upper-income homeowners and suburban or other visitors entertainment spending. These processes are usually carried out at the expense of existing residents who, in the case of inner city neighborhoods, are more economic and socially

vulnerable to change. Moreover, the interests of socio-economically distressed communities are less likely to be represented in urban planning processes and their concerns are more easily circumvented.

Community-based groups in cities in California and subsequently in other parts of the country have recently developed a model for engaging communities in development processes that affect them. The community benefits movement is a model for political engagement in which communities control development projects through (1) disclosure requirements for each project, known as community impact reports (CIRs) and (2) community benefits agreements (CBAs), defined as a "legally enforceable contract, signed by community groups and by a developer, setting forth a range of community benefits that the developer agrees to provide as part of a development project" (Gross, 2002, p. 1). CIRs require that developers and/or policy makers publicize information describing the impact a given project will have on a community. This typically includes detailed descriptions of the nature and scope of a project; sources of funding, including subsidies received; the anticipated impacts on local businesses, employment, traffic, and the environment; any benefits the project expects to provide for community residents; and a number of other disclosures. The CIR, which must be made part of the development process through legislative decree, is the foundation for the CBA negotiation process because it informs communities' decisions regarding developments that impact them.

Community Benefits Agreements (CBAs) may be a legally-binding contract between communities and developers (and possibly public agencies), but they are also an economic development process that affords communities' leverage to negotiate the terms of development with private companies and/or policy makers. CBAs may be achieved on

a project-by-projects basis, when communities have built up enough political power over developers and/or policy makers through community organizing and activism or by law, if a community benefits ordinance is enacted (usually) following several project-specific negotiations. The CBA concept goes beyond the paper contract; it is a process involving (1) negotiation between developers and community stakeholders leading to the provision of community benefits and subsequent community support for a development project and (2) a mechanism to ensure that promises are kept through an agreed-upon practice for monitoring and enforcement the CBA's conditions (Gross, 2002).

While these are the desired outcomes in the community benefits model, they hinge on the achievement of political power through effective community organizing and the development of coalitions with other local, regional or national organizations that enhance the political clout of the neighborhood advocates. These are arguably the most important components of the community benefits model, for without political power developers and policy makers have no reason to concede to neighborhoods' demands. A review of power-building in social movements is beyond the scope this thesis; suffice to say that scholarly analysts have written extensively about the factors that shape community-based power and the path to (desired) policy change or the failure and/or disintegration of social movements (Eisinger, 1973; Gamson, 1990; Jenkins and Parrow, 1983; Lipsky, 1970; McAdam, McCarthy and Zald, 1996; Melucci, 1980; Morris, 1984; Snow and Benford, 1988; Swidler, 1986; Tarrow, 1983, 1989; Tilly, 1978).

In the case of the American Airlines Arena project, a well-organized community-based movement in collaboration with arena subsidy plan opponents such as Dan Paul's coalition of activists, may have been able to generate enough political pressure in an

election year to require that the project provide benefits to the community through job creation and targeted hiring policies, guarantees for minority-owned business participation beyond the initial construction phase (i.e., as tenants at or near the arena), monetary concessions and other benefits. Furthermore, greater public participation in the development process instead of secret negotiations between policy makers and developers may have strengthened relations between citizens and leaders, and generated greater support for the project and possibly higher attendance rates for the arena. In a more extreme scenario, a powerful community-based organization or coalition may have been able to freeze plans to build a publicly funded arena, such as has occurred in San Francisco and Los Angeles to a limited extent with other types of projects (e.g., "Big Box" retail stores).[41] Regardless of the hypothetical outcome, transparency, public participation and enforced accountability are essential for ensuring an adequate return on the public's investment in economic development projects.

Conclusion.

The financial arrangements between the American Airlines Arena and Miami-Dade County generate profits for the team while distributing net losses to the county and local taxpayers. If the arena has not been able to generate a sufficient non-local fan base then the revenue impact on the county is insignificant. The spending of Broward fans most likely represents a realignment of local entertainment spending rather than new spending. The available evidence (hotel staff testimony, overall attendance rates, and geographic context) suggests that the Miami Heat attract very few out-of-state (hotel-

[41] See LAANE (www.laane.org) and Good Jobs First (www.goodjobsfirst.org) for examples.

going) fans during the regular season, thus the vast majority of non-local spending is likely to be done by in-state fans from Palm Beach, and to a lesser extent the Florida Keys and other locations. Most of these fans commute home after basketball games and may prefer to patronize the familiar local venues of their home town, reducing the chances that they would spend time and money in the environs of the arena before and after a game. Insomuch as post-season (playoff) games are few, the overall impact of these is likely to be negligible. Moreover, it is difficult to predict such an impact given the complexity of factors that affect team performance. Finally, since the greater seating capacity of the new arena should not affect attendance at events that typically do not attract more than 15,000, these events do not attract more visitors than the Miami Arena and therefore do not import visitor spending. Thus, the AAA is thought to generate about $3.9 million in incremental sales and tax revenue, of which no more than $1.17 million is expended to create 63 new jobs in the local economy. Combined with fiscal losses of more than $200 million over 30 years, these findings suggest that from an economic standpoint, the costs of building and operating the AAA with public funds far outweigh the benefits that taxpayers receive.

The construction and operation of the American Airlines with assistance from taxpayer dollars was unjustified as an economic development subsidy. Government intervention in the sports market is unwarranted in the context of increasingly lucrative advertising, merchandising and luxury seating arrangements that make it plausible to finance professional sports facilities without public assistance. Moreover, in the case of the AAA project, the public's investment in sports entertainment did not generate the positive economic impacts pledged by the proponents of the arena subsidy plan. While

the presence of the arena and the Miami Heat team may provide consumption benefits to basketball fans who attend games or view them on TV, this likely represents a minority of the county's population and may be unequally distributed. Furthermore, the AAA's negative economic impact and the lack and transparency and accountability in the process through which the subsidy plan was approved generate non-economic costs that may have strained relations between leaders and voters.

Miami's experience with building private sports facilities with public dollars fits into a national pattern in which team owners have sought public assistance to build more profitable facilities in the face of escalating player salaries and urban policy makers concede subsidies for fear of losing a professional sports team or failing to acquire one. Reforming the professional sports industry by allowing for a greater number of teams and leagues or league divisions and/or by removing professional sports exemption from antitrust regulation would make cities less vulnerable to the demands of profiteering team owners. In addition, communities in which publicly financed sports facilities are planned for development can get organized and mobilize in opposition to such plans and demand community impact reports and community benefits agreements from developers and/or policy makers. While such changes are not without significant obstacles, steps toward these reforms are necessary to protect the interests of taxpayers when professional sports teams seek taxpayer dollars to reap greater profits from new sports facilities.

APPENDIX

Fiscal Return on the Public's Investment

Table 7 presents a more comprehensive consideration of the various public subsidies and returns from the AAA. Figures included here that were excluded in estimate of net fiscal return in chapter V include foregone property taxes and outstanding debt on the Miami Arena. The former arena is included in the subsidy total since the construction of the AAA (and Broward's Office Depot Center) and the departure of it's two professional teams converted it from a profitable public investment to a fiscal burden (until it was sold last year). Foregone property taxes are included since in traditional public-private partnerships formed for the purpose of economic development the developable land is sold to the private company.

In addition, the figures in table 7 consider both geographic definition of the non-local fan base and a more optimistic projection of the county's share of arena profits. The most likely scenario is that the arena will not earn net income above $14 million in any year over the next 30 years.[42] However, assuming an optimistic increase in the number of tenants and retail fees, revenue from non-basketball events and considerable cutbacks in payroll and other expenses, the county could receive up to $32 million through its revenue sharing agreement with the arena. Despite the various adjustments, the net losses from the public's investment in the AAA continue to exceed $200 million.

[42] The chances of this are reinforced by the fact that American Airlines recently renegotiated its purchase of the arena naming rights in order to cut costs, although the outcome was not reported (South Florida Business Journal, 2003). Revenue from the sale of the arena naming rights represents a relatively large portion of the arena's annual intake (BPL Audit Reports, 2000-2004).

Table 6. Fiscal Costs and Benefits to Miami-Dade County

Subsidy and Revenue Sources	30 Year Total
Operating And Services Subsidy	$ (196,900,000)
Land Subsidy	$ (42,000,000)
Roadways Investment	$ (1,800,000)
MDC Parking Garage (1998)	$ (28,000,000)
Foregone Property Taxes	$ (18,734,770)
Miami Arena Outstanding Debt	$ (24,000,000)
Total Subsidy	**$ (311,434,770)**
Direct Naming Rights Surplus	$ 2,000,000
Park Fund	$ 500,000
County Share	$ 32,000,000
Local Sales Tax Revenue (CMSA, 20% non-locals)	$ 8,401,830
Local Sales Tax Revenue (CMSA, 50% non-locals)	$ 14,968,041
Retail Fees	$ 6,000,000
Revenue From Parking	$ 8,642,799
i. Least Optimistic Return Calculation	**$ 25,544,629**
ii. Total Return (CMSA-based visitor spending)	**$ 57,544,629**
iii. Total Return (MSA-based visitor spending)	**$ 64,110,840**
Cost/Benefit to Public (i)	**$ (285,890,141)**
Cost/Benefit to Public (ii)	**$ (253,890,141)**
Cost/Benefit to Public (iii)	**$ (247,323,930)**

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