

CATO INSTITUTE POLICY FORUM

HOME RUN FOR CORPORATE WELFARE:
TAXPAYER SUBSIDIES FOR
SPORTS STADIUMS

Monday, April 2, 2001

Moderator:

Casey Lartigue, Staff Writer,
Cato Institute

Featuring:

Stephen S. Fuller, George Mason University;
Dennis Coates, University of Maryland; and
Raymond J. Keating, Small Business Survival Committee

F.A. Hayek Auditorium
The Cato Institute
1000 Massachusetts Avenue, NW
Washington, D.C.

P R O C E E D I N G S

MR. LARTIGUE: Good Morning. Welcome to the Cato Institute. My name is Casey Lartigue. I am a staff writer here at Cato.

Today's forum addressing taxpayer funding of sports stadiums is timely for at least two reasons. The first reason is that, in case you hadn't heard, today is opening day at baseball; but a better reason is that five years ago we ended welfare as we knew it, or at least we started the process.

Now, the poor were given a five-year deadline to get themselves off welfare. Now, while we did downsize welfare for the poor, kicking the welfare queens off, we haven't focused as much attention on the welfare kings, of sports and business, who are still getting a lot of money from taxpayers around the country. Just to give you an idea, since 1990, there have been more than 50 stadiums and arenas built for sports teams at taxpayer expense, costing more than \$5 billion.

This week, thanks to \$310 million from taxpayers in Milwaukee, the Milwaukee Brewers will be playing in a new stadium that will cost \$400 million, and some of you may have seen, in Three Rivers' Stadium in Pittsburgh, that the stadium was imploded about six weeks ago. And actually, in Pittsburgh, this

is an interesting situation. We have two teams that were sharing Three Rivers' Stadium.

They sound like they were named by Ralph Nader or Charles Dickens. You have the Pittsburgh Pirates, who got \$200 million from taxpayers, and then you have the Pittsburgh Steelers, who also got \$200 million from taxpayers. And when you add in the cost for the stadium for the Philadelphia Phillies and for the Philadelphia Eagles for next year, it could cost Pennsylvania taxpayers \$1 billion, easily.

Now that's not it. There are many more proposals for more stadiums, such as Yankee Stadium, which is often referred to as the House that Ruth Built, may soon become the House that Taxpayers Built, because George John Steinbrenner would like \$1 billion from taxpayers to build a new stadium.

In St. Louis, the St. Louis Cardinals want \$250 million from taxpayers to build a new stadium that will cost \$370 million. Now, by the way, St. Louis is a city where the public schools were threatened with a takeover by the State government because of the lousy education system, and the State of Missouri has been faced with a budget deficit of \$300 million. So you have to wonder about the way they are allocating resources there.

Locally, we have the issue of building a stadium in Washington, D.C., that could cost \$330 million. And there are some people who are very optimistic that there will be a stadium

here because of George W. Bush. Some of you may recall that he bought into the Texas Rangers, and that the taxpayers built a new stadium, spending \$135 million, and that he got a \$15 million profit off of that. So, he may be someone who is not opposed to baseball in D.C., and, in fact, he might help push for it.

Now, all of this money going to sports leads to two questions. The first question is: Since when did it become a legitimate function of government to fund baseball stadiums like this? Stadiums were built privately in the 20th century, until I guess midway through the century, when politicians were using the modern version of Bread and Circus to entertain people. To paraphrase the junior senator from New York: It doesn't take a village to build a stadium.

It has been done privately and it can be done privately again. The problem is that we have too many politicians who ask, where can we build a stadium, instead of asking, should we build a stadium?

Now, this seems to be an example of Gresham's Law, where bad money drives out good money. And in this case we have public money driving out private money. We do have a recent success story, I guess we could call it, in San Francisco, where, after the team tried to get taxpayer money and they were refused, they had to build their own stadium with their own money. They went out and they raised the money successfully. In fact, they

raised, I believe, \$335 million. And that was considered a success story for taxpayers, because they only had to spend \$30 million in infrastructure around the stadium.

Now, it does make sense for the teams to try to get this money, because as long as someone else will build something for you, why would you stop them? So, why should anyone risk private money?

There is a second question. And that is: Do these stadiums actually help the local communities? If you look at some cities, such as Los Angeles, they lost two football teams in the same year, and you really couldn't measure that there was a loss. In fact, it was even hard to tell that they had been there. But I think that our panel today will talk about that. So, I will just close with a quotation from the Pittsburgh Post Gazette about stadiums in Pittsburgh. And this was about two weeks ago in the newspaper there:

"The new stadium will be self-supporting and will play a vital role in Pittsburgh's economic and social fabric. When it is completed, Pittsburgh will reassert its position of leadership among the foremost urban centers of the nation."

Those words were written 37 years ago by Governor David L. Lawrence, and he was talking about a proposed stadium, called Three Rivers Stadium. That stadium was completed in 1970. The

bills for it still haven't been paid off, and it was blown up earlier this year.

Now, for today, I think we have three expert panelists who can discuss this topic. It is baseball, so leading off today will be Raymond J. Keating. He serves as the Chief Economist with the Washington D.C.-based Small Business Survival Committee. He writes a twice-weekly column, "The Entrepreneurial View," at www.SBSC.org. He also co-writes a weekly column for Newsday in New York.

He has written three books. His first one could be of local interest. It was written, I guess, during the last term of the Marion Barry administration, called "D.C. By The Numbers: A State of Failure." His third book was published in June of last year, "U.S. By the Numbers: What is Left, Right and Wrong With America, State by State."

Most importantly, he wrote a study for the Cato Institute, called "Sports Pork: The Costly Relationship Between Major League Sports and Government." His latest report, just out on Friday, is called, "You're Out! Corporate Welfare for Big League Baseball." And these are all available outside.

Mr. Keating holds a M.A. in economics from New York University, an MBA in Banking and Finance from Hofstra University, and a B.S. in business administration and economics from St. Joseph's University.

He will speak first, and each speaker will have about 15 minutes to talk. And after that, I will probably give them a couple of minutes to debate among themselves, and then we will turn it over to the audience and give you a chance.

Mr. Keating.

RAYMOND J. KEATING,
SMALL BUSINESS SURVIVAL COMMITTEE

MR. KEATING: Casey, thank you. And I like your Pirates-Steelers analogy.

As you can tell by my, let's just say, less than slim physique, I am not used to leading off. Lead-off hitters usually get on base, and they're fast guys who can steal, but I will do the best I can to set the table, as they say, for the rest of today's lineup.

Just as an informational point, I am Chief Economist with the Small Business Survival Committee. We are a nonpartisan, nonprofit small business advocacy group, and we have more than 70,000 members across the Nation. And one of the things we don't like is corporate welfare, whether it is ballpark subsidies or, quite frankly, the SBA.

As Casey mentioned, I've written a good deal about ballpark stadium and arena subsidies over the years, magazine

articles and the two reports that he mentioned. And let me to just dispel a myth. A lot of people would like to assume that those of us that argue against subsidies for sports teams are not sports fan. And I am a huge sports fan. It is just as an economist, and a free market economist, I am not a fan of taxpayer subsidies for these facilities.

I think my job here is really to set the table. The gentlemen that are following me are going to battle between their respective economic studies. So, let me maybe do a little bit of the numbers on corporate welfare and a little bit of the history. As Casey noted, this season two ballparks are opening up: Miller Park, for the Brewers, which is about 77 percent publicly financed; and PNC Park, about 85 percent publicly financed. And by the way, I have to say, as a fan, when you look at PNC Park on TV -- I just saw it on TV -- that is one nice ballpark. I have to say that.

But these percentages, 77 percent and 85 percent, line up really with the history -- and I am just talking about baseball now, major league baseball -- the percentages line up with the history of major league ballpark financing, particularly since the middle of the 20th century. One of the things I tried to do in the study I did with Cato, and the latest report for SBSC, is to try to get a handle on exactly how much money have we spent, private and public, on these facilities, and I adjust

these to 2000 dollars. But when you look at ballpark stadiums that, sometime or another, have hosted major league teams, and considering again the data that we were able to scrounge up, in 2000 dollars, about \$11.5 billion has been spent on facilities for major league baseball teams. About 81 percent of that, \$9.3 billion -- again, these are in 2000 dollars -- were forked over by government; i.e., the taxpayers.

Historically, 1953 is really the breakpoint. In 1953, the Braves moved from Boston, and their privately built Braves Field, and they moved to Milwaukee for a county stadium which was government built. And the next year the St. Louis Browns moved, the lowly St. Louis Browns, moved of course to Baltimore, to become the Orioles, and they too moved into a publicly-built stadium for the Orioles.

Now, prior to this, only one major league baseball team, the Cleveland Indians, played in a government-built stadium. Cleveland's Municipal Stadium, or perhaps most of you more fondly know it as the Mistake on the Lake. So, prior to 1953, the numbers come out that about 75 percent of the funding was private for baseball stadiums. However, that 25 percent that was public was spent for Municipal Stadium in Cleveland, which was built to try to get the Olympics, which they didn't do. And the other one that I include is for the Los Angeles Memorial Coliseum, which also was built for the Olympics, paid for by

government. And it pays to remember that, I think, the Dodgers only played there for three or four years before Dodger Stadium opened.

So, when you extract those stadiums from the pre-1953 numbers, guess what? One hundred percent of the funding for ballparks built specifically for major league baseball, 100 percent was private. No taxpayer money. And contrast that to today, obviously. So, that is a little bit of the history.

Looking ahead -- we heard about the ballparks that are opening this season -- when you look ahead, you have to consider that there is a lot more coming in terms of subsidized ballparks. The Red Sox, they came to a deal last year up in Boston for some substantial subsidies there, where they would build the ballpark itself and the government would fork over all sorts of money for infrastructure and related buildings.

The Reds, in Cincinnati, my team, they already have a new ballpark under construction and they got taxpayer money. The Marlins are in the middle of a fight to get taxpayer funding in Florida. The Twins have had an ongoing battle and, to this point, not a successful one, to get funding.

The Expos -- Canada is interesting. A lot of us think of Canada as kind of socialist Canada. But when it comes to pro sports lately, they have been very tough in saying no to subsidies for sports teams. For example, the Toronto Maple Leafs

had to go and build their own arena with their own money, as was the case with the arena out in Vancouver. So, kudos to Canada at least on that point.

And other teams are in the running. Casey mentioned the Yankees. The New York Mets want a new stadium, as well. That is another interesting story on two fronts. There are two owners of the Mets. It is Fred Wilpon and Nelson Doubleday. Mr. Wilpon wants a kind of new Ebbits Field in New York. And it is amazing what you can dream up when you are spending other people's money. He wants a retractable roof. Not only a retractable roof, but a retractable field, so you can slide that grass field right out and do something else when the Mets aren't playing.

What is interesting, though, is that his partner disagrees. Nelson Doubleday has said some great stuff. He was quoted in the New York Times in October of last year. He said: Guess what? The taxpayers already built us a stadium. They shouldn't have to build us another one. And they shouldn't have to help us fix up the one that we have.

So, it will be interesting to see how that plays out. And also the A's want a stadium. And the Phillies, that deal is being worked out. The Cardinals now want a new ballpark. And the Padres, of course. Construction has started there. They

have had fits and starts, with all sorts of controversies out there, political investigations.

But, anyway, when you look at all of these efforts that are at least on the table, you can see another \$5 billion to \$6 billion being spent on new ballparks in the next few years. And the taxpayers could easily be on the hook for, as an estimate, \$3.5 billion to \$4 billion of that.

As I said, my colleagues here are set to kind of battle with their economic studies. But the general point that I want to make is that the legitimate economic studies here examine what has actually happened in the economy as it relates to stadiums. And when you look at those studies that actually look at a large number of cities and what has happened when ballparks are built, when teams move, et cetera, over a significant period of time, you find that there is either no impact on the regional economy, or some studies have actually found you could have a slight negative impact.

The beneficiaries here -- make no mistake about it, as is the case all the time with corporate welfare -- are the recipients of corporate welfare. In terms of baseball, it is the players and the owners. New ballparks mean more revenues to either pad the owners' bottom lines or to use for players' salaries. In the study that I did on Friday, I noted a couple of examples.

The Pirates and Brewers, as we said, move into subsidized ballparks. And there, each team, it is expected their payrolls will jump by about two-thirds. The Mariners moved into Safeco Field, moving out of the King Dome, in mid-1999. And when you compare their last full season in the King Dome, in 1998, their revenues were \$89 million. In their first full season in Safeco Field, their revenues were \$146 million.

Obviously, a big factor here is the increase in attendance. I am going to give you a quick rundown. I did some numbers over the weekend. For the major league ballparks that opened during the 1990's, or 2000, what happened with attendance? The Tigers moved into Comerica Field last year. They had a rather poor year, but their attendance still increased by 25 percent.

The Astros, last year, moved into Enron Field. Now, they went from winning 97 games and winning their division, down to a record of 72 and 90 last year, but their attendance still went up by 13 percent. The Giants moved into Pac Bell Park. Their attendance jumped by 60 percent. We will come back to the Giants again in a minute.

The Mariners, if you compare 1998 versus 2000, it's a jump of 19 percent. The Braves, into Turner Field, a jump of 19 percent. The Indians and the Rangers, when you have those strike-shortened seasons in there, 1994 and 1995. So, if you

compare 1993 versus the next full season, which was 1996, the Indians saw attendance jump by 68 percent, and the Rangers by 29 percent. The Orioles, Camden Yards, up 40 percent in 1992. And then, finally, the White Sox, in 1991, grew by 21 percent.

Interestingly, I think all of these teams moved into a smaller ballpark. I'm not sure about the Rangers. I haven't been able to check that. But they moved into a smaller ballpark, and their attendance went up. The new ballpark equals higher ticket prices. So, you could argue that the average person out there is not only getting hit with higher taxes to pay for ballparks, but a lot of them are not going to be able to afford to go to the new ballpark.

Just as an example, this year there was some sort of marketing study that AP reported on over the weekend. The biggest ticket price increases this year in major league baseball, the Pirates will be number one in their new ballpark, up 82 percent, the average ticket price. And the Brewers, number two, in their new subsidized ballpark, up 55 percent.

Luckily, at least winning still matters in this equation, to some extent. The Orioles, of course, as local folks know, have played quite poorly last three seasons, and their attendance has declined in each. Likewise, the White Sox, throughout most of the 1990's were either poor to mediocre, and their attendance suffered, until last year, when they won their

division, and their attendance that year jumped by 45 percent. So, that just kind of gives you a little setting for the discussion today.

Finally, as Chief Economist for the Small Business Survival Committee, I would like to mention the business communities' position in general on subsidized ballparks. Over the years, you've had some businesses and, in particular, representative in the business community, particularly State and local business groups, and they have been regular supporters of subsidized stadiums. In fact, you often see, beyond the politicians and the team owners, some of the biggest cheer leaders come from the leaders in the local business community.

Now, this drives me nuts. Because when you look at the economics, it is not justified. Again, the ones who are benefiting from these subsidies are the team owners, and you could argue the firms that design the stadiums and the construction firms that build them. But, for the most part, the business community in the region or in the State is not benefiting.

In fact, they probably face increased costs and lost business due to higher taxes paid by consumers or the businesses themselves. Or they face the problem of consumer spending being redirected as a result of the subsidized stadium. My bottom line is there is no reason to subsidize ballparks, especially when you

consider the revenue sources that come out of stadiums today, the amount of money that you are able to get from naming rights, signs in the stadium, concessions, you can go all the way down the line. Obviously, we cannot forget luxury suites, can we, and club seats?

There is a massive amount of revenue that comes out of new ballparks. The San Francisco Giants are an example, depending on, as we try to wrestle the numbers down to the ground, it is somewhere between 90 and 96 percent, Pac Bell Park was funded with private dollars. And the Giants are succeeding so far. They do carry, I think the estimate is, an annual debt service cost of somewhere around \$20 million. But they saw a big increase in revenues. They saw an increase in profits. And they are winning ball games. So, more power to the Giants.

I would just like to close out by saying that I understand as an economist and as a fan that baseball, or any sport, has economic value. The problem is the correct way of going about determining that value is not by having politicians subsidize stadiums, arenas and ball parks, but by letting consumers decide. And just like any other business, baseball teams should offer a product, gauge the consumer's response, and run the business accordingly. And let them decide if they can build a new ballpark or not, and what type of ballpark they can build.

Thank you very much.

(Applause.)

MR. LARTIGUE: I thank you.

The next speaker will be Dr. Stephen S. Fuller. He is Professor of Public Policy and Regional Development at George Mason University, in Fairfax, Virginia. Prior to joining George Mason in 1994, he served on the faculty of George Washington University for 25 years, including nine as Chairman of the Department of Urban Planning and Real Estate Development.

Dr. Fuller received a B.A. in economics from Rutgers University in 1962, and his doctorate in regional planning and economic development in 1969 from Cornell University. He has authored more than 450 articles, papers and reports in the field of urban and regional economic development. And he did a study for the Virginia Baseball Stadium Authority that is outside, that you can pick up if you haven't already done so.

Dr. Fuller.

STEPHEN S. FULLER, PH.D.,

GEORGE MASON UNIVERSITY

DR. FULLER: Thank you. I see we are not on daylight savings up on the podium.

(Laughter.)

DR. FULLER: I am happy to be between the two experts on public investment here, and I am sure we will have a good discussion. I would like to approach the concept of public investment and professional sports facilities in a broader context, thinking of it in terms of the public role in stimulating economic development. And in that context I would argue that this kind of public investment is not necessarily any different than other public incentives offered businesses to locate or to expand their businesses within the granting jurisdiction.

One might argue -- and of course it is a whole other program -- that offering tax incentives to AOL to locate their computer facilities in Prince William County doesn't make any sense; or spending \$2 billion on the Washington Convention Center, which is under construction a short ways from here, to generate hotel occupancy and jobs and other new cash flows for the benefit of the District, doesn't make sense and that this is a bad use of taxpayer dollars.

The Federal Government has been doing this for years, of course, placing their public buildings in locations to try to achieve social benefits, and to try to stimulate private investment in areas that had become less attractive, and had seen an outflow of public dollars and private dollars, to try to stem or to reverse the urban deterioration in the central city. So,

there is a long history of public involvement in directing, stimulating, and shaping private investment.

Now, this isn't to say that all public incentives for economic development have been good decisions. And we may have heard some with respect to baseball that weren't. We could probably come up with an alternative list for other kinds of facilities, as well.

However, many are good decisions. Many have net benefit to the local community, some economic benefit as well as fiscal, and other psychological and social benefits; and a sports facility can be, too. And I would argue that the proposed major league baseball stadium that is under consideration in Virginia would be an example of one that can be a good investment. Coors Stadium, one might argue, it too has had these extra benefits that do justify some participation by the government.

The premise that we functioned under, or we adopted, with respect to the study of a baseball stadium in Virginia was that it had to generate net new tax revenues at the State level sufficient to pay back the bonds that would be sold to fund a portion of the stadium. It had to pay its own way. If it did more than that, then one could argue that that is good for the State. So, at the State level, the stadium would be located in Northern Virginia somewhere; the location wasn't determined at this point, but Northern Virginia generally. And the State was

very particular that only net new taxes, not taxes that would have been spent somewhere else in Virginia, be counted before they would approve this document as the basis for gauging State interest and commitment to building a stadium, should a franchise become available.

So, in a sense, if you think of the public investment -- in this case approximately \$200 million toward a \$300 million stadium -- as an investment as opposed to a payment to the owners, then you want to look at what is the return on investment. If you do a financial analysis, the return on that investment to the State becomes the critical question. If it only covers its own cost, you get your money back and you say, well, that is okay, but we might have done better than that. So, benefits beyond just getting your money back should be part of the test.

It is also important to realize in these kinds of discussions that the money spent -- say \$200 million on a new stadium in Virginia -- are not monies that would have been spent on schools, are not monies that would have been spent on social services to the needy, are not monies that would be spent for highways or for Metro. This money would not be spent except for this purpose. In effect, the \$200 million or the \$300 million for the total cost of the stadium is net new spending.

And often the arguments are that this is just money that is traded off, and the conditions -- we heard that a minute ago -- that there are other uses for that money. These are bonds. These are revenue bonds. This isn't general obligation funding. This isn't tax revenues. It does pledge the State, however, to stand behind those bonds. So, there is a risk, as there would be in any bond.

As one looks at a proposal such as this, you need to take it apart carefully. And I would argue, as well, that each stadium is different and would produce a different result. The stadiums in Maryland would come up with a different answer. I am not sure what that answer would be, but we could look at that if we wanted to.

In the construction phase, it is all new money. It would not be spent otherwise. Not all of it would be captured by Virginia companies. We calculated, based on the kind of work that would be done, how much would be. And it came out to be about 48 percent of the spending for the construction of the stadium would be captured by Virginia-based companies.

This spending, the payroll, and the re-spending of that money in the State, the portion that gets captured within the State, would generate about \$300 million worth of total benefit to the State economy, to the gross State product, over the construction period. When the construction period is done, that

money is spent. It circulates for a little while longer, and then it is gone. Over that time frame, it would support almost 3,400 jobs. These are largely construction jobs, but not entirely, jobs that would be supported by the re-spending of this money through business-to-business spending and payroll -- \$100 million in payroll.

One could calculate an income tax and a sales tax, and there are other kinds of State taxes that could be calculated, but the income and sales tax from this activity -- the sales tax would be on the spending of payroll, not on the spending for steel and concrete; that, in this case, would be tax-exempt, or the taxes would be waived -- \$9 million in taxes. Well, that doesn't sound very impressive. Nine million dollars doesn't cover \$200 million in bonds. You don't have to be a mathematical wizard to figure that one out.

Once the building is done, over its operational life, it generates a continuing cash flow. And every year that repeats itself. We froze all expenses and did this in constant dollars. We held tax rates constant. One might assume that tax rates or the types of taxes might change over 30 years, but in this case these were held constant. And only those revenues that were spent by out-of-state fans -- 40 percent of the fans were judged to be out-of-state fans -- and business spending that would not

have been spent otherwise, in support of club seats and boxes and so on, were considered.

Spending by Virginia residents, one could argue one way or the other, but the argument generally would be that this money would have been spent anyway. The counter argument is that it might not have been spent in Virginia. And rather, not to get into that kind of discussion, we just excluded Virginia spending as a source of new taxes for the State. So, this issue of substitution effect was neutralized in this analysis.

We have team spending. We have stadium spending within the stadium. We have fan spending before and after games. And very carefully, or as carefully as one could, using conservative estimates on spending, numbers were developed, and the distribution between that would leak to the District and that which would be captured by businesses, hotels, restaurants, and suppliers and vendors headquartered in Virginia and employing Virginia residents as opposed as to other States' residents, we were able to come up with an annual estimate of what this stadium would generate. And it is just under a \$100 million a year spent within the Commonwealth, capturing about 49 percent of total spending.

This spending gets re-spent -- and we don't need to get into multipliers -- but it does generate additional spending. And over the course of a year, this level of spending would

support about 3,000 jobs. Some are in the stadium. Some are at CVS and Giant and Safeway and at the local hotels. In the past, we might have said gas stations, but you have to pump your own gas these days. But clearly this money, as it has moved around the State and through the State economy, has an income effect and it has an employment effect. That is why governments, whether they be local, State or national, invest in facilities that look like they are private facilities or to the benefit of private investors.

The tax take on this runs, at the State level, about \$10 million a year. Well, if you roll that over or roll it up for 30 years, and compare it to what it would cost to pay off those bonds, the bond cost is \$540 million. The State revenue net increase of \$437 million doesn't quite make. However, there are local tax revenues, as well -- \$256 million, we estimated, without any new taxes. And Virginia doesn't have too many local jurisdictional taxes. They don't have piggyback sales tax, or food taxes or hotel taxes, except in a few jurisdictions. And not knowing where the stadium is, we didn't count any of those.

There is a provision for a local tax in the legislation, establishing the State's commitment to the stadium, that would allow a local tax to be imposed upon certain revenues generated on-site to help pay for the cost of added police and

other public services that might be generated by the activities of the stadium, the traffic.

These stadiums could be used for other things other than baseball. Revenues that would be generated from those activities may be net new or not. It is hard to know. A band concert might be new. There would be no other place to have that in Northern Virginia.

I think it is fair to accept the criticism that some of these benefits being captured -- many of the benefits, but not all -- being captured in Virginia are at the expense of some other jurisdiction. But when General Dynamics moved their headquarters here St. Louis, that was at the expense of some other jurisdiction, too. And there were public funds involved in facilitating the relocation to Falls Church of the General Dynamics Headquarters. There are lots and lots examples of that, and most jurisdictions stand up and are proud that they have generated these kinds of jobs.

The Fairfax County Economic Development Authority claims that they have added 13,000 jobs to the Fairfax County economy last year through their activities. That is an activity that is supported by taxpayer costs. And their budget is only \$6 million a year, but they also have bonding authority. And it is a municipal-rate bonding authority; it isn't commercial-rate bonds. And that certainly has helped Fairfax County become the

richest county in the country, and certainly one of the fastest growing.

There a full range of other kinds of impacts that are very important to pay attention to. These are not measured within the study, but they are pointed to. And Coors Stadium represents a good example of this. And these are induced impacts. When you put a facility like this somewhere, be very careful about where you place it. The zoning, the land development opportunities, it changes the real estate market around it. It supports higher-density development, higher land values. It generates and can spin off, as a catalyst, can have impacts far beyond just the function of baseball. And so, where do you put it?

The MCI Center, which is privately funded, is a good example of that. The reason the District wanted the MCI Center was to stimulate investment on Seventh Street and its surrounding area. You could put a baseball stadium in a place where it will do nothing, such as the Redskin's Stadium, or you could put a sports arena in a place where it can have enormous effect. And to some extent I think Camden Yard is a fair example of that.

I have run out of time. I'll stop at this point and I look forward to the discussion.

Thank you.

(Applause.)

MR. LARTIGUE: Thank you.

Our third speaker is Dennis Coates. He is an Associate Professor of Economics at the University of Maryland, Baltimore County. He received his doctorate in 1988 from the University of Maryland, so I guess he was celebrating until they lost a few days ago in the NCAA Tournament. And he was an Associate Professor at the University of North Carolina at Chapel Hill before moving to UMBC.

He has done a lot of research, to include public choice and political/economy issues, such as the effects of campaign spending on the electoral outcomes and legislative voting and radioactive waste management policy, and education and economic growth and development.

And his research, along with Brad Humphreys, who I believe is in the audience today also, on the effects of professional sports and stadiums as tools of local economic development has been widely cited. And I can't help but mention that he also did an article for Regulation Magazine, the two of them together, and it should be outside also.

Dr. Coates.

DENNIS COATES,
UNIVERSITY OF MARYLAND

DR. COATES: The topic of my talk is going to be "Stadiums and Economic Development Tools: The Fact Behind the Fiction." What I am going to do is talk to you about some of the fiction, and there is a fair amount of it that we have already heard this morning. But before going into that, I want to thank Cato for inviting me here today. And I was going to point out that Brad, my co-author, is in the audience, but Casey already did that.

What I want to do is first discuss problems with economic impact studies that claim to estimate the dollar value of the economic benefits of professional sports, stadiums, and franchises to local economies. These studies are the fiction that is alluded to in this title. And I will explain why these are largely fiction and, when they are not entirely fiction, why they are almost entirely beside the point.

I am sure that many people in this room have seen or read some of these economic impact studies, and there might even be some people -- and there are that I know of -- that have commissioned such studies. I have read a lot of them, including the Northern Virginia study, and I have yet to see one that convinces me that they have done anything that should convince me

to support a stadium. That having been said, I think there are arguments that one can use to support public funding for a stadium. However, they are never used this way, and so I will talk about that should I have enough time.

What we would like to do is talk about the costs and the benefits. And the typical study talks about benefits; but, unfortunately, it doesn't pay enough attention to the actual benefits, and goes wandering off into these fanciful benefits, like the new jobs created and so on. What are the actual benefits?

Well, the actual benefits, first, come from enjoyment of the activities at the stadium. Like what? Well, people go there to watch a baseball game, a football game or a concert. They pay money to do that. How do we know how much benefit they got? Well, they got at least as much as it cost them for the ticket. We know that to be true; otherwise, they would not have purchased the ticket to go. So, those benefits are rarely even mentioned.

There is also the enjoyment of following the team. And this is a benefit that is very difficult to measure, but I think it is probably the most important benefit to think about when you are trying to decide whether you should fund a stadium or not. What is that benefit?

To give you an example, I have never been to PSINet Stadium, but I really enjoyed watching the Baltimore Ravens win the Super Bowl. I have never been to lots of stadiums, but I enjoy watching the sporting events from them. I didn't go to Minneapolis, but I enjoyed watching the Final Four. So, there are benefits being derived from those activities, but they are not going through the marketplace, so we don't know what their value is. Those are very real benefits, but they are also very difficult to measure.

And then there is the prestige, world-class cities, sort of argument that people make. I think there is something to this; I think it is also overstated. For example, when the Baltimore Colts packed up in the middle of the night and moved from Baltimore to Indianapolis, did Indianapolis all of a sudden become a world-class city and Baltimore not? I don't think so.

The current owner of the New Orleans Saints is talking about moving the Saints away from New Orleans. If they leave, will New Orleans all of a sudden no longer be a world-class city? I doubt it. People will still go there for Mardi Gras and for Bourbon Street, and so on. So, I am a little skeptical about the prestige argument as it is typically made, though I do think there are some important benefits there that just are not well-measured.

There are also secondary benefits. And the secondary benefits are the increased wages and employment that arise when you have the stadium in operation. I am pointing these out as secondary benefits, because they are not from the direct result of what goes on in that stadium. They are not the output of what is produced by the stadium.

There is also something else, and it is important to recognize them as secondary benefits. Because what you will hear is a great deal of information about the value of secondary benefits, and you will hear not one single word about secondary costs. What I want to do is talk about those costs for a moment.

The important thing to think about here is opportunity costs. And that is really what is given up by choosing this project. Well, money could have been spent on other projects whose returns are unknown. And I am at a bit of an advantage here, because I heard Professor Fuller's talk and he didn't get a chance to hear mine first. But he talked about how this money on the stadium in Virginia would not have spent otherwise.

Well, you know what? They could have chosen not to spend any money. They could have chosen to raise funds to spend it on many other things. So, the fact that it wouldn't have been spent otherwise is not an argument that it is a good thing; it is just an argument that they didn't do their homework and find out

what the best use of that money was. Which could have been to leave it in the taxpayers' pockets.

Now, there are secondary costs. But let me step back a bit. All of those other projects, we don't know what their returns are. Nobody ever computed those.

Secondary costs: Business is attracted from someplace else. It was interesting to hear about attracting business from St. Louis, or from wherever it was, and nobody complained about that. But there was also a fair amount of things seeping, or leaking, into the District. That is being taken directly from the local community. That is one of the things we have to worry about. But it is not just across, sort of, State boundaries.

What about if you put the stadium in one community in Virginia and you lose business in another community in Virginia? That is very rarely talked about or estimated in a reasonable way.

In line with that, a loss then comes with employment in another area. If you build the MCI Center to build up the area around the MCI Center, guess what happens to the area around what used to be the Capital Center/US Airways Arena? Well, it declines. The only reason anybody ever went there was to go to US Airways Arena. Now they have no reason to. That is exactly what would happen in another context in Virginia. Put the stadium in Fairfax or Alexandria or whatever, and that will draw

people who would have otherwise stayed in their home communities to Fairfax or Alexandria. And that will cause some decline in those other communities.

And then there are externalities. The externalities are things like the fact that you can't go through downtown anymore on certain days, or certain times of the day, because of the congestion from the stadium. That is a real cost that no one ever counts, never adds in. You also typically have to pay for additional security and fire and police, various sort of things like that. Those things are not accounted for. They change the quality of life.

Ray talked about the setting in Boston. It happens that where they are going to put the refurbished Red Sox Fenway Park is very close to several hospitals, where it is already very difficult to get to the emergency rooms during game times. This would only make matters worse. I am not sure if we want to go too far talking about lives saved by not having a baseball stadium next to an emergency room, but it is a very real cost to some people.

Now, the second thing that I want to talk about is some common mistakes in these economic impact studies. The first one of these is confusing costs and benefits. Let me pose a question to you. If you were to hire a contractor to put an addition on your house, and then you paid that person, what would you call

the money you paid? A cost, right? Impact studies call it a benefit.

It is no more a benefit when the State takes your tax dollars and gives them to the contractor than when you take your income and give it to the contractor. That is a very common mistake.

Now, the second part of this that is important is that the incomes that the contractors, that the construction workers, get are only benefits if they would not have been working otherwise. If they would have been working otherwise, then all you are doing is changing who is paying them. No one has every talked about, well, you know what? In fact, the construction workers were not 100 percent unemployed. They were employed or they would have been employed. In the labor market, when the study came out, it was very tight. To think that we had lots of unemployed construction workers around was probably quite unrealistic.

Misuse of multipliers: Basically, the people who devised the multiplier argument were macroeconomists. Twenty years ago, give or take a little bit, macroeconomists stopped using multipliers because they didn't think they were reliable, they didn't think that they gave accurate measures of the effects, and they just didn't believe what they were getting out of them. In fact, if you were to actually to think about what

multipliers are and look at what the current estimates of them are for the macroeconomy, you would find the value to be a number of about one.

Now, I point that out to you because what I heard was that the State of Virginia will pay \$200 million out of the \$300 million stadium costs. Forty-eight percent of that -- so roughly half -- will leak out of Virginia -- \$100 million -- and that will generate \$300 million of income. That is a multiplier of three. Three times the size of what macroeconomists, who have rejected this as unrealistic, would use.

Omitting opportunity costs: Most people understand opportunity costs at an intuitive level. If I am laying around watching TV and drinking beer, the lawn isn't getting mowed. I can't do both of those things at the same time. That is the opportunity cost. What could I have been doing?

Government dollars that are used to subsidize a stadium could have been doing something else. They could have been sitting in the taxpayer's pocket. They could have been used for some other public purpose. We don't know what they could have done otherwise. And the economic impact studies don't ask that question: What is the alternative use?

Now, I have been pretty hard on economic impacts studies. I should say that this is really a political failure. It's a political failure because it's the politician who should

say, "You know what? We have got competing groups who want me to spend money. This one says the benefits are that. What are the benefits of something else?" They don't. They just look at the numbers and say, "A-ha," it's positive or it's not, "I should do this one." Well, that only works if you don't believe in budget constraints. And most of us are constrained by what we have to spend.

Double counting: This is a common mistake in some kind of cost/benefit analyses, but it's not so common in these kinds of impact studies. But let me just tell you what it would be. I thought maybe I was hearing it today, but I am not sure. One of the benefits is that businesses in the neighborhood of the new stadium, or the arena or whatever, will be more profitable. Also, property values around the stadium or arena will go up.

Well, you know what? That's the same thing. Why is it the same thing? Well, it is the same thing, because anybody who would buy a business around there would figure out how much money could I make if I owned a business and operated in this neighborhood for a given period of time. The extra profits I would get from being here I will discount -- because I will get them in the future -- I will discount them back to today, and that will be the most I would be willing to pay to buy the property here. That's what property value is. So, counting the

property value increase and profit increase is counting the same thing twice.

Counting secondary benefits but ignoring secondary costs: I have already really mentioned this one, but the basic idea is that you've got all these new jobs supposedly created in the neighborhood of the stadium or the arena. You have new people who are getting salaries. And that is clearly a benefit. But what we haven't asked is: What about the people in the hotels that aren't in this neighborhood, or the restaurants that aren't in this neighborhood? If the argument is, well, they would have been in the District of Columbia, so all we are doing is stealing jobs from the District of Columbia. I think that is a lot harder sell than to say that they just exist, they are just going to be new jobs created.

I have already mentioned the external costs, so I will skip that.

The research that Brad Humphreys and I have done, and other people, there are some reasons to believe it. First, it is carried out by people with no pecuniary or monetary interests in this. Nobody paid us for this study. Not one dime have we ever received for doing this beyond our salaries at the University of Maryland, Baltimore County.

The second part of this is it is subject to the peer review process. People that we don't know read this and judged

its quality. Not the people who hired us to come up with these results, but people who don't know us and don't have a stake in this.

In our own research we looked at 37 cities. We accounted for a rich environment of sports. And what we found is that there is no strong case for large economic benefits, and there is a slight case for some economic costs.

Now, let me just give you a couple of reasons why I think this might be. And since I only have a minute, I have to talk really fast, and I will try to.

Basically, the argument that we would pose is the following. What you are doing is substituting spending that stays in the local community for spending that leaves the local community, to a much larger extent. So, professional athletes earn very high incomes and they don't live in the communities where they play, for the most part. Also, the teams use the money to fund their minor leagues and so on and so forth.

When you buy something at the local grocery store, that stays in the community to a much greater extent. On top of that, the person earning the income is lower income and will spend a higher proportion of the money they receive, whereas the athlete who earns \$20 million a year will spend very little of that proportionate-wise. They will spend a lot of money, but

proportionately it is much smaller. So, the multiplier effect is working on a much smaller base.

And my time is up. I never said what I thought was the good justification. Let me tell you what I think the justification for a stadium or an arena is before stopping. And that is, if you look at what it costs -- and there are reasonable numbers that have been constructed, for example, for Oriole Park at Camden Yards -- they came up with about \$14 per family per year. That is if don't ever go to a stadium; all you do is follow them on the television. The real question is: Is it worth \$14 a year to you or your family to have the team in town? If the answer to that question is yes, you should be in favor of having this. If the answer to that question is no, you should not. And all of the economic benefits, tax revenue numbers, are completely beside the point.

Thank you.

(Applause.)

MR. LARTIGUE: There appears to be a little disagreement, so I thought I would give you a couple of minutes, if you wanted to ask, each other questions, or we could just go to the audience.

DR. FULLER: I think I should get some time. After all, it is two against one.

MR. LARTIGUE: Please, go ahead.

DR. FULLER: It is fairly easy to stand before the group and take shots without having to defend the numbers. It is really important to keep a sense of the difference between tax revenues and revenue bonds. Taxpayers wouldn't be paying for the stadium in Virginia. In Maryland they might. Maryland didn't do a very good job on this. The football stadium, I think, is worse than the baseball stadium. But this isn't tax dollars being spent on the stadium. If it were, I wouldn't be challenging that point.

This is a revenue bond. It is a bond that the revenues generated by the stadium are pledged to pay. You don't use a revenue bond to build a highway unless it is a toll road. You build toll roads, and you pay for it with the tolls collected. The Jersey Turnpike is an example and the Dulles Toll Road. So, there aren't alternative uses for this \$200 million as readily available. We don't have to know what the opportunity costs of the \$200 million are in an alternative use. Because if there was an alternative use, with revenue to support it, you could do both of them.

There is no limits on revenue bonds as long as you have the revenue in hand. And in this case, the people in the Department of Revenue were very hard on these analyses, because they wouldn't step forward if they thought that there would be

other tax burdens placed on the State in order to fund these numbers.

The Capital Center is a terrific example. It isn't a negative example. The Cap Center is going to be redeveloped. Nothing ever developed around the Cap Center -- one motel and Redskin Stadium. There is nothing there that flowed out of that. There wasn't a place to buy a dinner. They are going to redevelop that site into a regional shopping center, and it will be a much better use of that land. And, in a sense, the opportunity cost is positive in this case -- in both cases -- even though it represents a transfer of an activity from one place to another.

I heard some fuzzy math. I might be accused of fuzzy math, but the multiplier wasn't 3 to 1. It is 2.1 to 1. Because he forgot the \$100 million of private money in here. It is \$300 million, 49 percent of which is retained in the State, generating \$304 million in total benefits. That isn't 3 to 1. That is 2-to-1 ratio. You have to be careful. I think the points that are offered could stand on their own without using fuzzy math.

Double counting: We didn't include any induced benefits in our analysis. I said that there are developmental effects, and those could be quite large. You have to be careful how you count them so that you don't use double counting.

And I think the food store is a terrific example. Giant Foods contributes very little to the local economy. Why? It is internationally owned. It is not a U.S. company. All the food that is sold in Giant comes from somewhere else. The only local benefit is a salary. The average salary in Giant is \$18,000 a year. The benefits are quite small; the profits all leave. So, you have to be careful. If you want to beat down a proposal, you ought to go at it very carefully. And I think some will fall. Many of them might fall. But in this case, I think we were quite careful with the Virginia stadium, in that it would be supported without any increase in taxes.

Thank you.

(Applause.)

MR. LARTIGUE: Now, for a second time, I will give you a chance to go at each other. Any questions? Or should I just turn to the audience?

(No response.)

MR. LARTIGUE: All right then. There will be a microphone coming around soon. Please say your name and identify yourself.

MR. LEVY: Bob Levy, from the Cato Institute.

For Professor Fuller, if revenue bonds don't impose any costs on the taxpayers, then why not simply require the owner of the stadium to float bonds to private investors?

And to Mr. Coates and Mr. Keating, if the stadium were fully private, one measure of its net contribution would be the profits that it earned. That is to say, benefits exceed costs by the amount of profits. If there are profits, the public has a claim on those profits in the form of income tax. Suppose the public were to renounce part of that claim by issuing a tax credit, under which circumstances the public would still be better off because it would collect some taxes; the private facility would still make some money, even net of the taxes that it paid. So, would you be in favor of a tax credit where you are not in favor of an outright subsidy?

DR. FULLER: The Greenway out in Loudon County was privately funded. Revenue bonds were sold. The tolls collected there go to the company that owns it to pay the bonds. If all of the tax revenues generated by the stadium were collected by the owners, what you suggest would be quite appropriate. They could sell the other \$200 million. They would have revenues coming in from the taxes. They would just keep all of the taxes on site -- it would be very difficult to accomplish, the off-site taxes -- and retire the bonds that way. So, that would work just fine. And that is the way this is intended to work. These are new revenues. These are revenues generated by the fans at the stadium and by the stadium operations to offset those bonds.

MR. KEATING: In terms of the tax credit idea, obviously profits and prices are signals in the marketplace. We all understand that. No, I certainly would not be in favor of the tax credit idea. I am a firm believer in lowering the tax burden across the board for everybody, whether it's the guy with the home business, the person with the next great idea for high tech, or the ballpark, the baseball team owners. So, I don't like highly targeted tax credits like that. I think it just kind of smells of corporate welfare in another form.

My simple argument is to keep taxes low across the board, reduce regulations, and let the consumers ultimately decide if they want a ball team in the area and what kind of facility that ball team will play in. Consumers ultimately should be making that decision, not a bunch of politicians.

DR. COATES: I basically agree with the idea of not supporting tax credits. Fundamentally, the issue is: What is it that we want the public to do? I am not sure, and I think this is something that Ray is really saying also. We are not sure that we want to encourage investment in something at the expense of something else. We should let the real rates of return on those things determine or dictate what individuals are willing to invest in.

I don't think that there is a great deal of evidence that suggests that any of the local development efforts that

people tout, like tax credits and enterprise zones, and things like that, really do much beyond move business around, rather than generating lots of new business.

MR. LARTIGUE: A question way in the back?

QUESTION: Good Morning. I am with the D.C. Statehood Green Party. And I wanted ask you business people, why would you recommend anybody invest in something that you can't control? You build a stadium, the team then puts you over the barrel and says, if you don't make a \$100 million in improvements, I am going to move to this other city. You are not in control of your own investment. I think sports, in particular, are the shakiest kind of thing to put your money in, because you ultimately are on the end of a string that is jerked around, forcing you to give one concession after another to billionaire/millionaire sport owners. Why would we want to get in this situation to begin with?

MR. KEATING: I will take first crack. I assume you mean, why should the taxpayers, whether individuals or business taxpayers, fork over money for this. That's a darn good question. Again, as a chief economist at a business group, as I said before, this frustrates me when the business community really steps up and plays cheerleader for these things.

The bottom line is here, that 1953 number I don't think is just something that was luck. We saw a drastic change in the

attitude of what government should be doing as the welfare state grew. The welfare state grew, and what you had was expansion all the way across the board. So, now it was suddenly a great idea to subsidize what today are multimillionaire team owners and multimillionaire ballplayers. And they are in the driver's seat, the owners of these teams, as long as politicians play this game.

Look what is happening right here. We have the Virginia Baseball Stadium Authority. Who would have thought? Think about that name. The government setting up something called the "Virginia Baseball Stadium Authority." Is that an example of government just a little out of control? I think it is.

So, the bottom line is there has been a sea change in the attitude of what government should be doing. And they are willing to hand out money to baseball teams and a whole host of other businesses. Professor Fuller said that other businesses get subsidies, too. Like my mother use to say, if your friends jump off the bridge, are you going to jump off after them? I hope not.

So, it's a fundamental change in the view of what government should be doing. And, again, it is very lucrative. If you go to Camden Yards, you see all these people having fun. I'll probably be there. I admit it, having fun and watching a game and cheering. And politicians look at that and they think,

well, isn't this neat? If I can get one of these in my community, I could cut the ribbon, I could throw out the first pitch. It just plays into their whole politician's mentality.

So, you've got a fundamental change in the view of government. You've got all the incentives in government to spend money. And, unfortunately, this is what we get. And owners know this. Team owners know it. And they play the politicians beautifully, one city against another. In baseball, a team hasn't moved since 1972, when the Senators Part Two left to become the Texas Rangers. But, in the meantime, there have been a lot of threats. And Bud Selig, the Baseball Commissioner, he played this game as the owner of the Brewers. So, he knows it very, very well. And he is doing his job as part-time lobbyist for baseball team owners. And he is saying, well, those Expos, you never know, they might go. The Twins, I am thinking about it.

Or we may contract. That's the newest one. That plays not only in the stadium games but also obviously in terms of contracts with the players. But they are a well-oiled machine. They really are. And they capitalize on this view that government shouldn't be limited anymore, that it should be involved in all these things.

MR. LARTIGUE: Another question?

MR. MILLIKAN: Al Millikan, Washington Independent Writers.

If you would put aside the economic debate arguments for this, you have hinted at this, but how would you view this as a kind of religion as far as sports in our nation currently? As opposed to much of organized religion, sports seems to have much more commitment, devotion and fanaticism than what identifies itself as religion?

MR. KEATING: I am not willing to say religion. I am a Christian and a ball fan. A Christian first, okay? Obviously, the role of the fan comes in here in a big way. And that's another thing that the owners play on. When they pressure the politicians, the obvious threat also extends to the local fans. If you are a Twins fan, you don't want to see your Twins go to wherever, Washington, D.C., so that obviously plays in, in a big way.

An interesting point to bring in with that is, what about people like my wife, who couldn't care less about baseball? And they are going to pay taxes. And in most cases they are going to pay taxes one way or another. You can play around with the numbers, and fudge them, and say, oh, no, they are going to come only come from here, and so on, but, one way or another, she is going to have to pay.

We have a new minor league stadium where I live on Long Island that the county funds and the State funds. And she couldn't care less, and I would argue that probably most people couldn't care less, and she is going to pay for it.

MR. LARTIGUE: A question over here, and then I believe we have someone here from the Virginia Baseball Stadium Authority. So, if you would like to ask a question afterwards.

MICHAEL COLLESANO: Michael Collesano, from Congressman LaFalce's office.

I'm from Buffalo, New York, and we have three stadiums. The question I have is you seem to have done your economic analysis more specifically to the D.C.-Virginia question, but I think maybe in your other studies perhaps, but here today, you have neglected maybe the question of this community versus every other one in the country. Because, frankly, the question we have in Buffalo is: What would happen if the Bills leave? And the current chain of thinking is there is nowhere for them to go where they would get a better deal. Because we just spend \$100 million over three years with no long-term commitment.

My question is, the Alex Rodriguez contract, \$250 million over 10 years, that is a stadium right there. If that doesn't make it obvious that you can take -- the New York Yankees have a \$110 million payroll per year now -- it doesn't take a Ph.D. in economics to say, well, let's make them buy their own

stadium, which they are going to do, because the Yankees want to be in business so they will have an \$80 million payroll, and it will take \$25 million year out and they will build their own stadium. So, the economic incentive to build the stadium is already there.

It is just that the blackmail that communities face, no one is willing to just say, we are not going to build this stadium. If you want it, this is the D.C. market, build it yourself. In terms of the business community, the real catch is all these sky boxes. What is the opportunity costs of those businesses not investing in those sky boxes, not just for the baseball stadium, but we don't have the economic incentive to use the stadiums for baseball and football, you have got to buy a sky box for your baseball team and your football team because we have got to build separate stadiums?

So, I think that there is some economic arguments that could also be explored about the waste not just in D.C.-Virginia, but also D.C., Buffalo, and Memphis, because they want the basketball team now.

DR. COATES: I didn't really talk about what Brad and I have done, but we actually used 37 cities over 26 years. So, we have attempted to capture that. And I didn't describe the variables that we used in detail, but the things that we used were things like, did a stadium open in the last 10 years, did a

team enter the market in the last 10 years, did a team leave this market in the last 10 years. And then we also had information on the stadium capacities and things like that.

And so, the overall effect that we found was that the total sports environment package actually led to a lower income per person in real terms in that community. So, to say that we haven't focused on other communities, I think, is not quite correct. We haven't done sort of cost/benefit impact studies in other cities -- at least Brad and I haven't, but many other people have.

But I think also that what you need to keep in mind -- and you've suggested it a little bit there -- is that professional sports is largely a monopoly organization. They decide where new franchises will be or won't be -- and where they currently are, apparently, if Bud Selig's plan comes out. And that really gives them a lot of power.

If you want to find out what the value of these new stadiums is, one thing that you should do is look at what the run-up in the value of the franchise fee has been in the last 10 years. It is phenomenal. It is absolutely phenomenal.

So, people wouldn't be paying these phenomenal franchise fees if they didn't think it was worthwhile. To give you an example, the Baltimore Ravens, a fellow bought a half

interest for \$300 million. A half interest. This was before they were successful. What would it be worth now? I don't know.

MR. LARTIGUE: Yes?

MR. HANNIGAN: I'm Brian Hannigan, with the Virginia Baseball Stadium Authority. I would like to respond to a couple of the comments.

For those of us who live in this region and are on a daily basis aware of the outstanding fiscal conservatism of our Governor, Jim Gilmore, I think the suggestion that in any way the Governor would associate himself with something that was not fiscally sound does not stand of its weight. I would point out, in a related issue, that the Stadium Authority was precisely in a search for an independent verification of what we suspected would be the case regarding a study on the economic and fiscal impacts, as opposed to going to a commercial consulting firm for a report, as had been done previously by the investor group working to bring a team to Northern Virginia.

We specifically went to George Mason University, and Professor Fuller, because of their reputation for independence and academic integrity. Again, in a related scenario, it was only after some very rigorous vetting, through the Governor's office and the Department of Finance in Richmond, that Governor Gilmore associated himself with the findings of Professor Fuller's report and pledged his support for a responsible

public/private partnership, in a letter to Bud Selig last July, subsequent to the release of the Fuller Report.

So, I certainly want to defend the independence. The Fuller-GMU report was based upon a report from the staff of a joint subcommittee of the General Assembly in 1996. And it was from that starting point that Professor Fuller and his team constructed their analysis.

Now, I understand that you can argue some points on models and multipliers and so forth, but any insinuation that Professor Fuller's research is anything but filled with integrity and independence is just false and shouldn't be made and, in my view, is not a responsible statement in a public forum.

I have copies of the statement released by Governor Gilmore, to Bud Selig, that was made last summer. I would be happy to make them available to any members of the media or the public, if I have enough copies, after the session. And we look forward to a spirited discussion over lunch with you gentlemen.

MR. KEATING: I would like to respond on two fronts. Governor Gilmore is great. But just because he makes right decisions in some areas doesn't necessarily mean he makes the right decisions in subsidizing a ballpark. And, quite frankly, it is one of those fascinating things, that this cuts across political ideologies and parties. I mean, you get the Jim Gilmores and Tommy Thompsons of the world.

Tommy Thompson is a great story there. The voters said no for the Brewers, and then he said, well, the heck with the voters, we are going to do it anyway. And in the middle of the night, Tommy Thompson was down on the floor of the State Legislature twisting arms. He does great things other places, he stopped welfare as we know it, but unfortunately he gave baseball welfare a bit of a boost. So, again, these folks have made some right decisions in some areas, but that doesn't mean they make the right decisions when it comes to this issue.

And I know when you guys announced -- and this is not an attack on someone's integrity -- this is an argument, as we are having here, about economics and what model works and what doesn't. It is my opinion that these types of models are pretty bogus, that were used in this case. And you made a big point, I know, in your original press release -- going back when this was announced -- you made a big point: We're not hiring some consulting firm. We are going to get an economist.

Well, from what I can see -- and Dennis probably does know it better than I do -- but from what I can see when I read this, besides some tweaking, it is basically the same kind of report that consultants crank out. So, I think, again, this is a spirited discussion so I would like to counter those two points that you made.

DR. COATES: I would also like to respond to that, because I was very critical of the study in my remarks and I have been very critical of the study in print. I did not mean to impugn Professor Fuller's integrity about this. But I will point out that what you said was that the original document was written by a joint legislative committee. It came out of a political process. I have been involved in that sort of process before, where people who don't really have a great of economic expertise say, this is what I want you to do, and you think to yourself, well, okay, if that is what you want me to do, I'll do, but it is just plain stupid. And so you do it. That is not to say that you're --

DR. FULLER: Speak for yourself on that.

MR. LARTIGUE: I think we'll take one more question.

QUESTION: I have heard the economic arguments going on for some time. I guess my question to each of you would be, if in fact there is a proposal for a stadium, and it is presented to the fans and the taxpayers in the form of a referendum, do you want it or not, with the specifics of how it is going to be funded, if the vote is yes, even if your economics say it doesn't make sense, do you still have a problem with the proposal going forward and being approved by the politicians if in fact there is public support for it?

DR. COATES: Well that actually is an interesting and a tricky question, because it depends on what we take to mean a "yes" or a "no" in this context. If you think about what happened in San Francisco with respect to the stadium for the Forty-Niners, they had three votes. Basically, they said, in the first one, 100 percent public? No. Okay, how about 75 percent? No. Okay, how about 50 percent? Then yes. So, you have three votes; which one do you take? So, there is that question. When do you stop voting on this thing and tweaking the proposal to get the outcome that you wanted all along?

The second part of that that I want to mention -- and this is something that I talked about at the end of my presentation -- was that it's really important to me that the decision that the voters make be based on reasonable numbers. And to tell them that there is going to be 3,000 new jobs created -- I think every single study I have ever seen said basically 3,000 new jobs -- independent of where they were. Which leads me to the question, is it really the case that you will get 3,000 new jobs in Northern Virginia, and 3,000 new jobs in downtown Baltimore, and 3,000 new jobs in Cleveland, and 3,000 jobs in Timbuktu? I just don't think that that's plausible.

But what I would not object to is if they said, look, if we do this, the evidence suggests that you are going to pay, as a family, \$20 a year. A couple of people at Johns Hopkins did

a study of Camden Yard's Baseball Stadium and came up with \$14 a year. Okay, it costs the community, the people in the estimate, say \$14 a year. Is \$14 worth it to you, yes or no? If the answer to that is yes, and voters choose to fund the stadium based on that, I don't have a problem with it. If they say no, I don't have a problem with that either. But when they are not getting accurate information, I don't think that the vote is really a fair vote.

MR. KEATING: That is interesting. When you look back at the numbers on votes, it kind of breaks out 50-50. Half the time they pass, and half the time they go down, when you look over the long run. So, a vote is a vote, and it is going to happen. If it's going to go through, what can I do about it? I am certainly not going to agree with it.

On the flip side, though, you have got to remember the politics and the incentives here. You have a very concentrated interest of a team owner and his players that are going to benefit enormously from this, and then you have the dispersed interests of the taxpayers. It is one of those classic problems. So, they have every incentive, the team owner, every incentive to pump money into this thing and pass it. And the average taxpayer says, if it's 14 bucks, I don't even have time to look at it. I've got my family and I've got my business. So, you have got that factoring into this whole equation.

You've also got the idea that, in Milwaukee, in Seattle, in Pittsburgh, and I am sure there are other places that I can't think of off the top of my head, they were voted down, and what did the politicians do? Well, that is mighty inconvenient, let's find another way to do this. So, they just ignore it.

At least it would be good if they said, "Okay, that's the decision, the answer is no. Go home. Go build your own ballpark." And it would never happen, but I would love to see the question asked: Should we subsidize baseball team owner and players by building them a taxpayer-funded ballpark? Explain what is going on here. Because as much as we talk about the little benefits that dribble out, maybe, maybe not, who is benefiting here? The team owners and the players ultimately. They are getting the welfare. They are getting the bucks. So, let's state that quite clearly. And if that were stated quite clearly, I don't think many of these would pass, quite frankly.

MR. LARTIGUE: Any last words?

DR. FULLER: I think you need to think of all of these kinds of investments in the broader context. Government, whether it is State, local, or Federal, are intimately involved in economic development activities. The private sector and the public sector are intertwined. And on the matter of a vote, you

can only get a 20 percent or 30 percent turnout anyway, so you wouldn't get a reasonable answer.

But I think on many votes, if we voted on a bridge, on a metro, on a convention center, these projects wouldn't pass. And yet, in the larger context of society, they are judged to be valuable additions for capacity building. We are building the basis for more jobs. In the Washington area, we added over 112,000 new jobs last year. They didn't fit into existing buildings. They went into new building. Somebody had to build this. And there are government incentives behind most of what gets done to shape it. The question is, how does it get shaped and is it in the public benefit? I think that is where the argument should be, and not whether we should do it or not. It is how we do it.

MR. LARTIGUE: Okay that is it. Our time is up. Please go upstairs. We have a luncheon going on now. Thank you very much.

(Applause.)

(Whereupon, the Policy Forum was concluded.)