1979

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Recommended Citation
Tempo, Vol. 25, no. 1 (1979), p. 59-64

ARENAS AND STADIUMS

Do they make economic sense?

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Cities struggling to spur growth, boost civic pride, and increase revenue have turned to a variety of capital projects—shopping malls, arts centers, new government buildings, and, importantly, sports arenas. The recent boom-bust cycle of sports center development is an excellent object lesson in this time of governmental budget crunches. It suggests the complexity of problems to be addressed if expectations are to be fulfilled.

In 1972, Denver voters turned down legislation to finance the 1976 Winter Olympics in their city; the Games were moved to Innsbruck.

Still a topic of discussion is the cost of capital construction for the 1976 Summer Olympics in Montreal—not only in the economic and political circles of that city, but also in any other city mentioned as a site for future Games.

After lengthy negotiations between the City of Los Angeles and the International Olympic Committee, it appears that an agreement has been reached that wil protect Los Angeles taxpayers in the event the 1984 Games in that city suffer a loss.

Despite the popularity, despite the glamorous image of the sports world, its colorful impresarios no longer seem so able to persuade American taxpayers and local officials to spend tax dollars for an arena or stadium whose construction is against their better financial judgment. An era of uninhibited expansion in professional sports, of new stadiums and arenas built with civic pride and civic ambition appears to have wound down.

Whether or not to spend public money to construct an arena or stadium now prompts a vigorous community discussion. What are the precise benefits, what are the financial risks that go with building a sports-related facility? The promoters must back up their enthusiasm with hard facts.

Some segments of the community, for example, argue that the public should not provide tax dollars so that privately owned sports teams, the primary tenants of these arenas and stadiums, can make money from a publicly financed facility. Conversely, other segments of the community argue that an arena or stadium can mean additional business and improved morale to a community. The situation is the same, whether it concerns a relatively small 3,000-5,000 seat arena that costs $2-$5 million in a city of 40,000-50,000, or a large $100-$200 million stadium with 60,000-80,000 seats in a large metropolitan area.

A common problem for public arenas or stadiums built in the past ten years is that the facility operates in the red if debt service—the cost of the initial borrowing for construction—is included. When facilities claim they are operating in the black, what many of them really mean is that they are covering operating costs. Excluding debt service is often considered acceptable, however, since so many facilities do not even cover operating costs. When older stadiums and arenas actually do operate in the black, it is usually because their original construction cost was much lower. In the early 1960s, a large stadium's cost was in the range of $30 million to $50 million. A comparable stadium today ranges from $80 million to $150 million.

So why do communities across

The Silverdome, Pontiac, Michigan.

the country still debate whether or not to build arenas or stadiums? Probably the most common reason is the hope that the facility will bring more people and, therefore, more money into the community. In the case of larger cities, this can be money and people drawn back into the inner city. It is usually hard to prove, however, that an arena or stadium by itself can cause a community to be revitalized. Normally, several projects are needed. A more prevailing reason a stadium or arena gains support is focused on the pride of the community, as it is reflected in the support and allegiance to a professional sports team. Regardless of the reason, however, it is ultimately the community, through a referendum or through a decision of elected officials, that should decide whether the benefits, economic and otherwise, of a new stadium are worth the cost.

Detroit: Two Game Plans

Perhaps the easiest way to understand the complex factors involved in borrowing money for an arena or stadium is to take a look at the experiences of two communities in the Detroit metropolitan area.

First, there is the $55 million, 80,000-seat Pontiac Silverdome. Pontiac is a suburban city of 90,000 about 30 miles from downtown Detroit. The Pontiac Silverdome was constructed in 1973 to be the home of the National Football League's Detroit Lions, plus a site of other special events and community activities. The stadium was financed by $25 million in revenue bonds, $16 million in general obligation bonds passed by citizens in a special referendum, and $7 million in short-term borrowings.

Recently, the Pontiac Silverdome received unfavorable publicity—precipitated by losses of $3.2 million, after debt service, in the first three years of operation. Further, it is projected that the stadium will lose an additional $2.5 million in the 1977-1978 fiscal year. In addition to being considerably more than the planned deficit of $1.8 million over these four years, this deficit of $5.7 million, an obligation of the city, is very large when compared to the entire annual budget for Pontiac, which is only $25 million.

An analysis of the deficit reveals that some of the largest expenditures during the first three years were for improvements that helped to bring to Pontiac two additional sports teams—the National Basketball Association's Detroit Pistons and a newly-formed soccer team, the Detroit Express. To accommodate the Pistons, for example, a smaller "mini-dome" of approximately 36,000 seats was created. The design of this mini-dome utilizes a corner of the stadium, with permanent seating accounting for two of the four sides and temporary seating completing the remaining two sides. The mini-dome, which is separated from the remainder of the stadium by a removable curtain, will also be used to accommodate events with smaller attendance.

Critics might ask, however, "Isn't this throwing good money after bad, since the city had apparently planned on losing money on the primary tenant, the Lions, and now it may continue to run deficits with additional professional sports teams?" In response, two factors should be considered. First, most of the deficit in the first three years is the result of "one-time" expenses; the stadium does anticipate breaking even in the near future.

Second, and perhaps more important, since its opening in September of 1975, until the end of the fiscal year, June 30, 1978, the Pontiac Silverdome has been visited by nearly 4 million paying customers. It has been estimated that these have generated close to $32 million in direct income for businesses and residents in the metropolitan Pontiac area. When considering a 2½ times respending (multiplier) effect for this $32 million (i.e., assume a local restaurant is the recipient of one of these dollars and would in turn pay an employee who would in turn go to the local store or gas station and spend the money), the total economic benefit to the Pontiac area is approximately $70 million.

Another question that might be asked is whether or not the stadium money could have been spent on something else that would have had a better economic effect on the city. In the case of Pontiac, a study done at the same time the stadium was being comtemplated indicated that the growth from other revenue-attracting industries—shopping centers, office complexes, and multiple family dwellings—was limited in Pontiac due to an abundance of such industries in the surrounding communities. The study concluded that economic expansion was available to the city only through additional manufacturing facilities. But it was felt by the community that Pontiac had enough manufacturing, that it would rather expand in other directions. Therefore, the stadium appeared to be a good option.

Another factor that influenced the stadium decision was the pride of city residents. At that particular time, the city of Pontiac was receiving national attention because of problems associated with the busing of school children as a result of a Supreme Court decision. This issue had divided the citizens of Pontiac, and uniting behind the stadium project thus restored some of the pride that had been lost through the busing problem.

The second example is that of the city of Detroit and its efforts in the stadium/arena area. The city is attempting to improve its image and its pride. The new Renaissance Center in downtown Detroit reflects this. With three of its professional sports teams already moved to Pontiac, Detroit was faced with the possibility of losing its remaining professional baseball and hockey teams.

To keep the Detroit Tigers, the city bought the existing baseball stadium for one dollar and began a multiyear, $30 million renovation. At the same time, the Detroit Red Wings of the National Hockey League were contemplating a move to the suburbs and building their own arena. To counteract this, the city decided to construct a $25 million arena, and to offer a highly favorable financial package to the management of the Red Wings. This proposal, indeed, prompted their decision to stay in Detroit.

What effect will all of this have on downtown Detroit? It is probably safe to say that it *can* contribute to the renaissance of the city and,

The Superdome, New Orleans, Louisiana.

coupled with other developments, *can* improve the economy and morale of the citizens. This, in turn, might help promote a movement back toward downtown Detroit. But there are too many imponderables, beginning with a winning record for the Tigers and Red Wings, to enable one to predict the city's future with certainty.

An example of a city which refused to support an arena is Columbus, Ohio, where a 20,000-seat, $29.5 million arena was proposed. In this case, a feasibility study indicated that total revenues would not cover operating expenses. The shortfall would have resulted in a cost to the average Columbus citizen of approximately $1.50 per year, before considering any debt service. Asked to vote in a referendum, the citizens of Columbus rejected the building, at least for the time being. Presumably they wished to spend their money on something other than an arena.

A Case Study in Optimism

When a community does decide to build an arena or stadium, there are many pitfalls to be avoided. Too often a community decides that building a stadium will be good for the community, then constructs the facility without properly analyzing the facts. Often the supporters of the facility are so caught up in their own enthusiasm that they project potential events and revenue far greater than reality would indicate.

Exactly this took place recently in a metropolitan area of approximately 350,000 persons, whose major industry is tourism. The details are interesting. The city has two contrasting areas. The newer section is viable and growing. The original downtown section, however, has been in need of economic expansion.

Texas Stadium, Irving, Texas.

In the past, several special interest groups for the overall community have suggested building a sports arena. Most recently a downtown businessmen's association commissioned several feasibility studies; they determined that an 18,000-seat arena was needed and that, furthermore, it should be located in the downtown area. Yet despite extensive campaigning for a new arena, there was little or no support for it in the local government. Therefore, the businessmen lobbied at the state legislature and succeeded in having a law passed that mandated construction of a sports arena adjacent to the central business district. It would be funded from hotel tax revenues previously earmarked for operating a convention center and promoting tourism. The cost of the arena was estimated at $26 million.

Inside the visitors convention bureau commission, there was a spirited debate. Should the commission reject the state law or comply with it? Several feasibility studies existed, but the commissioners decided that prior to committing their organization to a heavy financial burden, they would retain an independent third party to prepare a new feasibility study. The study would determine not only the financial and marketing feasibility of the project, but also a specific site for the arena. The decision for a new study was not welcomed, incidentally, by the special interest group that had lobbied for the law. Here is the story of that study.

First, a profile of the general market area was compared to those of other areas of the country. The results were not encouraging. For example, this metropolitan area of 350,000 persons was not in the top 100 population centers in the nation. Moreover, 18,000-seat arenas were normally built in major metropolitan areas of at least 2 million people. Typical arenas of that size also had at least one, and often two, major professional sports teams, as well as a schedule of more than 200 events annually. In addition, most of these arenas lost money if debt service was included in total cost of the arena.

Metropolitan areas of comparable size to this tourist community had arenas of approximately 8,000-12,000 seats, and none of them served as the home of a professional sports team. Furthermore, only one franchise in the National Basketball Association, the National Hockey League, or the World Hockey Association was in a city of less than one million in population. And that city, San Antonio, Texas, has a population of almost one million people and ranks as the 37th largest population center in the country.

Based on a thorough analysis of area demographics, it was determined that a sports arena in this tourist community could attract 100 to 110 events. To illustrate the optimism that is sometimes exhibited when advocating construction of a stadium, we can compare this projection to that of a previous study conducted by the special interest group. The result is as follows:

☐ A projection of 16 intercollegiate basketball games was more realistic than the previous study's 21 games. Conversations with the league in which the local university team played indicated that the maximum number of home games allowed (league and non-league) was 17. The special interest group had predicted more games than were permissible under league rules.

☐ No hockey games were projected for this market. The special interest group had projected 41 such events. According to hockey league officials in that region of the country, there were no teams interested in moving to this marketplace, and, furthermore, there were no people in this particular metropolitan area that had either expressed an interest or had contacted a league to sponsor a team. Furthermore, this area had had two professional hockey teams previously, and both had gone bankrupt due to lack of interest.

☐ No volleyball games were pro-

Mile High Stadium, Denver, Colorado.

jected. The special interest group had projected 22 professional volleyball games. Further investigation into this projection indicated nothing more than talk about forming a professional league for cities of this size, and no communities had been identified.

☐ The special interest study also indicated 12 intercollegiate sports activities to be held in the proposed arena. Interviews with the coaches of the various teams from the local university indicated that there was no interest or desire to move their games off the campus and into a large arena.

☐ The special interest group predicted that there would be $125,000 in daytime or non-event parking. But an investigation of the proposed site for the downtown arena revealed that there were no commercial or retail establishments adjacent to the property. Furthermore, there was free or inexpensive street and off-street parking available closer to the downtown area.

To determine the operating expenses for a facility, one analyzes similar facilities in other localities and then adjusts the analysis according to what is planned for the specific project. Since existing convention personnel were to operate the new arena, accurate operating costs could be estimated. These projections indicated personnel costs would be approximately twice what the special interest group had estimated. The special interest group study also projected fringe benefits to be an additional 12 percent of payroll costs, whereas the actual financial statements for the existing convention center indicated that a rate of 26 percent was more accurate. From this analysis of operating costs, expenses were projected to be approximately $500,000 higher annually than the special interest group had foreseen.

This analysis projected an operating loss before debt services of $350,000, vs. the special interest group projection of a $1.4 million profit.

In addition to the operating loss, the debt service had to be added to determine the project's total cost to citizens. Utilizing somewhat different construction costs, but the same debt service assumptions used in the former study, the project was forecast to lose approximately $2 million per year. This compared to the previous study's projection of a $700,000 annual loss.

In response, the special interest group hired another consultant to refute the new study's statistics and projections. This consultant stated that projections of only 100 to 110 events were unreasonable. He based his own projections on the Philadelphia Spectrum, the Los Angeles Forum, and the Washington, D.C. Capitol Centre, all of which were holding 250 to 300 events annually. Such a comparison was not valid, however, since these arenas serve metropolitan areas of approximately 3 to 7 million people, not an area of 350,000. In addition, each of the three facilities above housed two professional sports teams, thereby providing about 80 to 85 of the total events.

Although it may appear that the special interest group was purposely using incorrect figures, this was not the case. They really did believe their numbers, largely due to their enthusiasm for the project. What of the commission? After considering the facts, the commission accepted its own study and tabled consideration of the facility until a new source of funds could be identified to support the $2 million annual deficit.

Post-Game Follow-Up

During the past ten years, the question of whether public money should be spent to construct an arena or stadium has been raised again and again. If there is a trend today, it is that communities are less willing to run a financial risk on sports-related facilities. They will support only projects for which a need is obvious.

Thus, when a study is conducted to determine whether or not an arena or stadium makes sense to a community, care must be taken that all economic factors are realistically evaluated. The community or its elected representatives can then make the decision. Should a decision be made to build a facility, both the financing and the construction must be carefully monitored, the initial operation carefully planned, and, when in operation, the arena or stadium must be run as is any private business.

"We have to meet payrolls, as does any other business," says Abe Pollin, who owns and operates the Capitol Centre in Washington, D.C., at a net profit. "We have to pay taxes, as any other business. We have to pay rent. We have to meet all our bills. We can't look to the taxpayer to bail us out. The fact is that public stadiums and centers are not run with the same intensity, the same acumen as they are when you have to make a financial go of it."

But this is a challenge that communities who plan, build, and operate stadiums can meet—if they obtain the correct information beforehand and then implement their plan faithfully. △